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CONCURRENT RESOLUTION ON THE BUDGET FOR FISCAL YEAR 1992

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
UNITED STATES SENATE

ONE HUNDRED SECOND CONGRESS

FIRST SESSION

FEBRUARY 20, 1991—BLOCK GRANTS IN THE 1992 BUDGET: PROGRESS OR POVERTY

Part 2 of 5

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BLOCK GRANTS IN THE 1992 BUDGET: PROGRESS OR POVERTY

WEDNESDAY, FEBRUARY 20, 1991

U.S. Senate,
Committee on the Budget,
Washington, DC.

The committee met, pursuant to notice, at 10:23 a.m., in room SD-608, Dirksen Senate Office Building, Hon. Jim Sasser (chairman of the committee) presiding.

Present: Senators Sasser, Exon, Lautenberg, Simon, Symms, Bond, Lott, and Brown.

Staff present: Larry Stein, staff director; John J. Callahan, deputy staff director; and Dave Williams, group leader for physical and natural resources.

For the minority: G. William Hoagland, staff director; and Lynne Daghlian, senior analyst for science and transportation.

OPENING STATEMENT OF CHAIRMAN SASSER

Chairman Sasser. The committee will come to order.

Today, the Senate Budget Committee holds a hearing to examine the Bush administration's 1992 block grant proposal. The Director of the Office of Management and Budget, Mr. Richard Darman, noted in his introduction to the budget that the Bush administration was prepared to consolidate some $15 billion in a major new Federal block grant program and to consolidate these programs into a block grant essentially for three reasons:

First, a block grant would allow the Federal Government to reduce overhead. We are all for that. It also would allow the States to manage resources more flexibly. And, finally, a block grant would move power and decisionmaking closer to the people. Those were the reasons given for advancing the block grant proposal.

Now, clearly, these are all very laudable goals, but we must examine this block grant proposal to see if, in fact, it can achieve these ends.

Now, unfortunately, at first glance, the block grant proposal seems to have several flaws, all of which are further detailed in a report that has been prepared by the majority staff of the Budget Committee.

First, the administration identifies some 15 grant programs that could be put into a block grant and contends that they will be fully funded. However, when you compare the administration's budget with the baseline expenditures for these programs, there is a $27.2

billion shortfall that will be passed on, we assume, to State and local governments over the next 5 years.

That represents some $27 billion in increased taxes for State and local governments if they wish to maintain current service levels under the block grant proposal being advanced by the administration.

Second, States and cities may not be able to afford this fiscal shortfall. Twenty-eight States now expect budget shortfalls this year. Major cities are in equally desperate fiscal conditions. The 1980's have seen local taxes skyrocket as Federal taxes and Federal aid has declined, and State aid did not keep pace with city needs.

Indeed, between 1979 and 1988, Federal aid to our largest cities dropped in real terms by 35 percent.

The block grant proposal simply does not take note of the severe fiscal problems that our cities and our States now face.

Third, some of the grants to be turned over do not meet national needs. The administration proposal suggests the turnover of some $4.5 billion for the public housing modernization and also the operating subsidy program, yet the estimated funding needs in these programs runs to some $6.5 billion each year. So what you are seeing is a $2 billion shortfall on an annual basis. Total public housing modernization backlogs may reach as high as $24 billion.

The question arises: Where are the States and cities to find these funds?

Finally, the block grant seeks to consolidate programs with very divergent purposes. Housing and community development programs primarily serve cities, while medicaid, Aid for Dependent Children, and food stamp programs are administered by the States. Impact aid and waste water treatment grant formulas are very different. Yet it appears the administration seeks to put all of these programs under the same tent.

Clearly, this attempt at new federalism, as far as I have been able to determine, has some flaws. It could leave our States and our cities with more, rather than fewer fiscal problems. It could reduce funding for the essential safety net programs, and I think it could further diminish the role of the Federal Government in solving our Nation's urban problems.

I, for one, believe that the Federal Government has a role to play in solving this Nation's urban problems. As I move around the major cities of this country, I see the deterioration in infrastructure that has occurred there and the many social and economic problems that plague these areas. Many of these problems can be tied to the decline in Federal participation in helping solve these problems over the past decade.

It is my belief that the flaws that we have outlined here ought to be corrected before we can go forward with a sound block grant program.

Those are my views here this morning. Unfortunately, our distinguished ranking member, Senator Domenici, is unable to be with us this morning. He is necessarily absent on official business, but his chair is being very able filled by Senator Symms, and I would turn to Senator Symms now for any comments or observations he might wish to make.

OPENING STATEMENT OF SENATOR SYMMS

Senator SYMMS. Thank you very much, Mr. Chairman.

I know Senator Domenici is disappointed that he couldn't be here today, but some events in New Mexico require that he be absent. He has given me a statement, and I ask unanimous consent at this point that it be inserted in the record.

Chairman SASSER. It will be included in the record.

[The prepared statement of Senator Domenici follows:]

PREPARED STATEMENT OF SENATOR PETE V. DOMENICI

I wish to join the chairman in welcoming our distinguished witnesses, Deputy Director Diefenderfer, Governor Ashcroft, Mayors Dinkins, Flynn, Riley and Althaus and to particularly thank them for their willingness to testify this morning on short notice.

We begin today, our initial examination and discussion of a concept presented in President Bush's fiscal year 1992 budget proposal. It is not a new concept.

Consolidating and turning back Federal programs to the States has been tried over the past two decades with varying degrees of success and failure. However, in each case, with Federal revenue sharing and with block grant programs of the early eighties, the programs shared the same goals we now envision: to streamline government, to move control of Federal funds closer to the people they serve, to allow States the flexibility to respond to their respective special needs and to foster innovation in service delivery.

While we unquestionably will hear reservations expressed today concerning the Administration's proposal, we have a unique opportunity to bring what we have learned from past experience, and working together, to fashion a block grant program which can accomplish the goals we share.

It is not the objectives of this proposal which deem it controversial, but rather the question of loss of control. There will be Members of Congress who are hard-pressed to relinquish the authority to specifically designate spending for particular programs. There will be current program recipients who fear that funds on which they have come to depend will no longer be secure.

But for the Congress to refuse to act creates an even greater injustice than any threatened by a loss of Federal control: an erosion of the States' authority to determine their respective priorities and to govern themselves.

Can it be that the Federal Government is more capable of determining which public or private entities in a given State are most appropriate for coordinating drug control assistance? Is it possible that the Federal Government knows better, the particular job training or education needs of a State? Surely our country is not well-served if we consistently usurp the powers granted the States by the founding fathers.

President Bush's proposal is a modest one, allowing the Congress broad discretion to fashion a program which will address the concerns we've heard in the past. The question before us today and in the weeks ahead is whether the goals and objectives of the block grant concept justify the hard work it will require of us to fashion a practical, fair program. Mr. Chairman, I believe that they do.

And Mr. Chairman, representatives here today from the Administration, the States, and local governments, I recognize that hard work will be required. We must address which programs to include, funding formulas and long-term funding arrangements.

Because aspects of previous block grant programs have been less than successful, do we give up on the entire concept? In the interest of good government, we cannot afford to do so.

I look forward to the challenge before us and am hopeful that today's testimony will be a constructive step toward common goals.

Senator SYMMS. Mr. Chairman, if I might proceed, I first would like to welcome the witnesses to the committee and thank them for rearranging their schedules on such short notice. I know this hearing came up quickly, but it is always nice to get a quick start on difficult projects. Perhaps we can meet again in a few weeks when we have some more information to go on. But I do look forward to your testimony.

Now, Mr. Chairman, if we stop and think about it, it might be strange that one level of government would collect taxes and distribute the proceeds to other levels. If they were unable to raise revenues themselves for whatever reasons, that would be one thing. But I haven't seen many cases of a mechanical or legal inability of State and local governments to impose a tax. Those cases which do arise speak for themselves, I think.

We have this strange system in which the Federal Government imposes taxes. On whom? Of course, on the residents of States, cities, and counties, and then we send the money back to the State, city, and county governments. It is a shell game.

Then, again, maybe it doesn't seem so strange but only because we have done it for so long.

I happen to welcome the President's proposal to give State governments more freedom to set spending priorities. I think it is something we should look at. However hard the Federal Government tries, it cannot hope to measure the needs in a State as well as the State and local governments. Therefore, it cannot hope to spend as intelligently in meeting those needs.

The President hasn't told us exactly where this transfer of programs and funding should occur. He didn't list specific programs for transfer. He offered some suggestions. Most important, he set a target for transfers, leaving the Congress to choose how to meet the target.

I understand, I think, why the mayors of our Nation are concerned about this proposal. The needs of our cities are great. The resources available to meet these needs are strained, in some cases beyond the breaking point. Anything that may threaten the flow of Federal funds to the cities, of course, is cause for mayors to be alarmed. But we don't even have a set of detailed changes to study yet; so I would think that before anyone rejects or endorses the proposal, we ought to see it spelled out and study it to see how it might work, what benefits might follow.

It seems to me that anyone who blasts this proposal at this point is shooting in the dark, and it is quite possible they will shoot themselves in the foot.

Let me be clear about one thing at the start. There is a lot of waste, in my opinion, in spending. Despite all the talk of cutting to the bone, there is still a lot of fat. This isn't a lite budget at all. I think we need to do a much better job of prioritizing our spending, finding out what works and what doesn't, and cutting funding to the programs that don't measure up.

There is not a person in this room who hasn't run across a few instances where clearly State and local government could have spent more wisely. But the decision to spend was made in some dark recess in Washington.

In fact, for some of my former colleagues from the other body that are on this committee, for all of us, but particularly for those young students of civics in America, it will be a very interesting exercise and civics lesson to see whether the subcommittee chairmen of the fiefdoms in the imperial House of Representatives will be willing to relinquish to the States the power that they have been able to accumulate over these past many years with respect to each little nuance of Federal spending.

If we are going to spend the money, we should spend it prudently. We owe the taxpayer that much. I believe the Federal Government can best spend some of this money by giving the State governments the control over where the money is to be spent. We cannot ignore the concerns of local governments. There is no question about that. Our cities and our mayors have a legitimate case to make, and I look forward to them spelling out that case in the course of this hearing.

As we go forward in considering and acting on the President's proposal, we must keep their concerns in mind. These are easy enough ideas in theory. In enactment, however, they can be very tricky. The devil, after all, can always be found in the details.

Thank you, Mr. Chairman, and I look forward to hearing from the witnesses.

Chairman SASSER. Well, thank you very much, Senator Symms.

We are very pleased to have appearing before the Budget Committee this morning the Honorable John Ashcroft, the Governor of the State of Missouri.

Let me say to my colleagues that Governor Ashcroft has distinguished himself as an able administrator and as a scholar. He graduated from Yale University cum laude, earned his law degree at the University of Chicago—which I expect Senator Simon would take some pride in—and Governor Ashcroft has served with distinction as a professor in his native State of Missouri at Southwest Missouri State University.

Governor Ashcroft appears before us this morning in his capacity as Vice Chairman and Chairman-elect of the National Governors' Association.

It is a great pleasure to have you here this morning, Governor, and we look forward to hearing your views. If you would, please, introduce your colleague there for the record, it would be very helpful.

STATEMENT OF HON. JOHN ASHCROFT, GOVERNOR, STATE OF MISSOURI, ACCOMPANIED BY RAYMOND C. SCHEPPACH, EXECUTIVE DIRECTOR, NATIONAL GOVERNORS' ASSOCIATION

Governor ASHCROFT. Thank you, Mr. Chairman.

My colleague here is Ray Scheppach, who is the Executive Director of the National Governors' Association.

I am delighted to be here to have an opportunity to share with you the views of the National Governors' Association on the block grant proposal that was submitted in the President's budget. I would like to make a couple of major points on that proposal to outline the position of the Nation's Governors.

First, the Nation's Governors support the block grant concept, and we appreciate the willingness of both the Congress and the administration to include us in the design of the block grant.

Historically, the Omnibus Budget Reconciliation Act of 1981 eliminated 59 grant programs and consolidated nearly 80 narrowly focused, categorized grant programs into nine broad-based block grants. In that process, more than 600 pages of Federal regulation were reduced to a little more than a dozen. The States now have more than 10 years history of successful block grant administration, and we find these grants are working very effectively.

Not only have block grants been successful previously, but because there is a new premium on the integration of services, a new block grant would be even more effective today. While States recognize the need to better integrate and coordinate resources, such efforts are often complicated by the eligibility and programmatic limitations of narrow categorical programs.

In Missouri, for example, we are attempting to restructure the delivery of services to children, and we would be much advantaged if we had the flexibility of our caseworkers being able to work for the benefit of the citizens rather than the system in this regard. The children frequently are sacrificed because so many different categories of aid and so many different sets of requirements and limitations provide an inordinate level of structuring without an appropriate level of service. Our task is much more complicated because of the restrictive Federal grant programs' lack of flexibility that would in some cases keep us from meeting the best needs of our children.

Our first point, then, the Nation's Governors support the block grant concept. We appreciate the willingness of Congress and the administration to examine and explore the concept.

Second, the Nation's Governors plan to submit a block grant proposal to both the Congress and the administration by the second week in March. It was our clear understanding from the President's remarks and from other communications that the list submitted by the President was merely illustrative, exemplary; that the administration invites the submission of a list by Governors or other interested parties that would meet the objectives but would simply perhaps focus on different programs. The National Governors' Association has a series of committees that we have charged with the responsibility of finding programs that would best be suited for block grant treatment. We plan to work jointly with the National Conference of State Legislatures in developing a proposal, and we will have it ready in the next couple of weeks.

The Governors' recommendation will follow a set of guidelines that will maximize program efficiency as follows:

Number one, the programs selected should have some broad degree of commonality. There should be some theme.

Number two, programs should be either categorical grants to State governments or project/competitive grant programs in which States currently receive the majority of the funds awarded; the Governors are not interested in including grants such as the local portion of CDBG that are currently targeted to local government.

Let say, at the expense of being redundant, or the potential of being, that the Governors are not interested in including grants such as the local portion of CDBG that are currently targeted to local government. We do not want to impair the ability of cities to receive aid or to interfere with the ability of cities to do so. The scale of this proposal should give us plenty of opportunity within the grants currently flowing to States to tailor a proposal that would not threaten resources that are now being made available to our cities, and the Governors have no intention or desire to do so.

Third, priority should be given to those grants that currently have unduly limiting mandates or overly detailed administrative regulations.

And fourth, programs selected generally should be national in scope and not those that primarily benefit selected regions or States. That is because we would hope that any program that would finally be decided would be one that would not unduly favor one region or State or set of States, and that the moneys that would be flowing to States flexibly for their deployment more effectively in serving the citizens rather than the system would generally flow in similar proportions in outyears as they would flow in current years.

There are currently more than 475 categorical grants to State and location governments—76 in elementary, secondary and vocational education; 69 in social services; and 61 in health care. It is clear that there are considerable opportunities to consolidate many of these grants to increase services to our citizens and to improve our efficiency. And at a time when we are all looking at levels of expenditure that are substantially less than what we might want them to be, our ability to deploy resources efficiently and effectively becomes even more important.

My third and last point focuses on the Governors' desire to go beyond the block grant concept to improve the Federal/State partnership.

In the summer of 1989, the National Governors' Association passed a resolution calling for a 2-year moratorium on new Federal medicaid mandates to allow time to implement the expansions with which we were already working. Despite the Governors' united plea, Congress continued to mandate medicaid expansions. In fiscal year 1990 alone, medicaid spending by all States increased by 18.4 percent to $61.4 billion and consumed 12 percent of the State budgets. That placed medicaid second only to education as the biggest expenditure in State budgets. For this year, medicaid is now projected to be up another 25 percent.

The Missouri experience in this respect is common to most States. While our general revenue collections have increased an estimated 55 percent in the last 6 years, Missouri general revenue spending for medicaid has increased 131 percent in the same time period. Medicaid mandates are outstripping the growth in State revenues, and since our plea to Congress in 1989 for no more new medicaid mandates so that we could implement the expansions already passed, 14 more medicaid mandates have been enacted. The added medicaid mandates in fiscal years 1991 and 1992 alone will require $111.1 million in increased Missouri general revenue to be devoted, and that is $111.1 million out of about $135 million. It is about 80 percent of our effort, of our discretionary new funding.

While many of these expansions have worthwhile goals, the major and cumulative expense to both State and Federal governments poses a significant opportunity cost for States and the Nation. It is one that relates to flexibility. Our ability to decide the deployment of resources to best achieve our mutually agreed upon objectives of better health and greater opportunity for our citizens has substantially been eroded with the mandates that have come from Washington. There is simply less revenue to spend on education, children, and other State services as health care costs spiral upwards, and the health care costs themselves are focused in areas required by the mandate. Some of the mandated changes merely shift additional costs to States without providing additional services, and this obviously curtails our flexibility.

I am pleased to have had this opportunity to express the Nation's Governors' support of the block grant concept. Our intention is to work as well as possible with the Congress to find ways to select categorical grants to be moved into the block grant category, which will provide flexibility in allowing us to provide increased service to the citizens of our States, without unduly paying homage to a system that, through its bureaucracy, curtails our flexibility and the opportunity to be effective.

I would be pleased to respond to any questions. Thank you very much.

Chairman SASSER. Thank you very much, Governor Ashcroft, for your statement here this morning.

[The prepared statement of Governor Ashcroft follows:]

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STATEMENT OF

GOVERNOR JOHN ASHCROFT

STATE OF MISSOURI

BEFORE THE

BUDGET COMMITTEE

U.S. SENATE

HEARING ON BLOCK GRANTS

FEBRUARY 20, 1991

Mr. Chairman, I am happy to be here today to discuss the block grant proposal submitted in President Bush's budget. The major points of my statement are as follows:

- First, the nation's Governors support the block grant concept and we appreciate the willingness of Congress and the administration to include us in the design of the block grant.
- Second, the states have ten years of successful experience administering block grants created by the Omnibus Budget Reconciliation Act of 1981. So we are not embarking on a risky or untried course in working together to fashion yet another block grant.
- Third, the National Governors' Association will be ready by the second week of March to recommend programs to be included in the block grant.
- Fourth, we are eager to go beyond the block grant concept to build a stronger federal-state partnership.

The National Governors' Association has responded positively to the President's concept of turning over at least $15 billion in federal programs in a block grant to states. We believe this would represent another important step in improving the partnership between the federal government and state governments. If enacted, a block grant should provide for more effective and efficient program delivery at the state level. My fellow Governors and I are particularly pleased that Congress and the administration have reached out to us to build an improved federal-state partnership. Our citizens cannot help but benefit when we work together. In addition to this hearing, the Speaker of the House and the bi-partisan House leadership met with the NGA Executive Committee and displayed a willingness to work with us toward program consolidation. In a later visit to my office the Majority Leader of the House assured me of the House leadership's sincerity in discussing this proposal.

The BLOCK GRANT CONCEPT

The block grant concept is another important step in an improved federal-state partnership because it is not the first step and we hope it will not be the last. In the Omnibus Budget Reconciliation Act of 1981, Congress eliminated fifty-nine grant programs and consolidated nearly eighty narrowly focused categorical grant programs into nine broad-based block grants. In the process, more than 600 pages of federal regulations were reduced to fewer than a dozen. The states now have more than ten years of successful administration of block grants. While there certainly were funding problems in 1981 that appear absent in the current proposal, Congress knew then what it recognizes today with the block grant proposal -- that moving decisionmaking closer to the citizens can improve service delivery.

Because there is a new premium on integrating services, a new block grant would be even more effective today. Problems do not respect agency or program lines. Reducing infant mortality, improving school performance, strengthening families, reducing teenage pregnancy, and improving the quality of our workforce all require a range of services that cut across current agency and program lines. While states recognize the need to better integrate and coordinate services, such efforts are often complicated by the eligibility and programmatic limitations of narrow categorical programs.

In Missouri, we are attempting to restructure the delivery of services to children. Our task is much more complicated because restrictive federal grant programs lack the flexibility to best meet the needs of our children.

There is, for example, a clear consensus that preventing dropouts requires significant changes in school curriculum. However, it may also require programs such as day care for teenage mothers, health and social service programs to reduce teen pregnancy, child protective services to deal with the problem of abusive parents, drug or alcohol treatment, or part-time employment or some other program to facilitate the transition from school to work. Under current federal grants, each of these services is authorized separately, and several of the individual services may be funded from more than one categorical grant. Some are limited by the type of service that can be provided. Others are limited by geographic area, financial eligibility criteria, or the agency that can receive or administer the money.

This fragmentation often means that people do not receive the combination of services they need to overcome their problems. Investments in one area may be largely ineffective without critical support from another program or agency. This is a result both of different eligibility criteria and of the barriers that both recipients and service providers face.

A prime example of lack of flexibility in Missouri is that social service caseworkers must document by fifteen minute intervals the time spent for individual Medicaid, AFDC, and food stamp cases. Even though all these programs often are administered to a single individual by the same caseworker, separate files - noting each fifteen minutes of work are kept for each program. This results in duplicate paperwork and consumes hours of caseworkers' time. We need a new approach that allows us to serve the citizens instead of the system. A new block grant approach can achieve that goal.

DEVELOPING THE GOVERNORS' RECOMMENDATION

The National Governors' Association plans to submit a block grant proposal to Congress and the administration by the second week in March. We plan to work jointly with the National Conference of State Legislatures to develop the proposal. The Governors' recommendation will follow a set of guidelines that will maximize program efficiency as follows:

- The programs selected should have some broad degree of commonality.

- Programs should be either categorical grants to state governments or project/competitive grant programs in which states currently receive the majority of the funds awarded; the Governors are not interested in including grants such as the local portion of the CDBC, that are currently targeted to local government.

- Priority should be given to those grants that currently have unduly limiting mandates and overly detailed administrative regulations.

- Programs selected should generally be national in scope and not those that primarily benefit selected regions and states.

There currently are more than 475 categorical grants to state and local government -- seventy-six in elementary, secondary and vocational education; sixty-nine in social services; and sixty-one in health care. Clearly there are considerable opportunities to consolidate many of these grants to increase services to our citizens.

While most Governors respond positively to the concept of a block grant, there is also some concern that the grant may be cut over time. Funding should be driven by the needs of the programs not by the type of the grant. States should not be expected to pursue program objectives without continued financial commitment from the Congress.

MEDICAID: A FEDERAL-STATE PARTNERSHIP

I have shared with you the nation's Governors' support for the block grant concept, the successful experiences states have had in administering federal block grants, and the timetable for response from the National Governors' Association on a proposed block grant. My last point addresses the Governors' desire to go beyond the block grant concept to improve the federal-state partnership.

In summer 1989, the National Governors' Association passed a resolution calling for a two-year moratorium on new federal Medicaid mandates so that there would be more time to implant the expansions already passed. Despite the Governors' united plea, Congress continued to mandate Medicaid expansions. In fiscal 1990 alone, Medicaid spending by all states increased by 18.4 percent to $61.4 billion and consumed 12 percent of the state budgets. That made Medicaid second only to education as the biggest expenditures in state budgets. For this year Medicaid is now projected to be up about 25 percent.

The Missouri experience is common to most states. While our general revenue collections have increased an estimated 55 percent in the last six years, Missouri general revenue spending for Medicaid has increased 131 percent in the same time period. Often we are forced to cut optional services to fund mandates which means that we are giving up preventative services to fund lower risk individuals. Medicaid mandates are outstripping the growth in state revenues. Since the plea to Congress in 1989 for no more new Medicaid mandates, fourteen more Medicaid mandates have been enacted. The added Medicaid mandates in fiscal 1991 and fiscal 1992 alone will require an $111.1 million increase in Missouri general revenue.

While many of these expansions have worthwhile goals, the major and cumulative expense to both state and federal governments poses a significant opportunity cost for states and the nation. There is simply less revenue to spend on education, children, and other state services as health care costs spiral upward. Some of the mandated changes merely shift Medicaid costs to states without providing any additional services.

States are facing the toughest fiscal situation since the 1982 recession. More than thirty states will have deficits if they are not able to reduce spending or increase revenues before the end of fiscal 1991. The National Governors' Association adopted a policy at their meeting in Washington two weeks ago that the Governors "should be full partners" in developing national domestic policy to address the nation's immediate concerns and develop blueprints for renewed economic growth and a better quality of life. We think a block grant proposal is one important step in that partnership. Another important step is a moratorium on any new federal mandates, increases in state matching ratios, and shifting of costs to your already overburdened partners in the state capitals.

I would be happy to answer questions.

Chairman SASSER. As I understand your statement, the Governors support the block grant concept, but they are also planning to go forward and develop their own proposal for a block grant. As part of that proposal, you suggested to us this morning that there ought to be some degree of commonality in purpose for the type of services to be funded, and I could not agree with you more.

The analysis that we have done of the President's proposal, which the committee is releasing today, shows that the administration's block grant proposal contains so many different programs, with so many different purposes, that, it will not pass the test of commonality that the Governors seem to have set up.

It sounds to me, if I may paraphrase your statement just a little bit, as if the National Governors Association accepts the block grant concept as an abstract concept, but then goes on to reject everything about the President's proposal, in specifics. Is that a fair assessment of the Governors' position at this time?

Governor ASHCROFT. I think it would be fair to say that we accept the concept. As a matter of fact, I think it would be fair to say that we enthusiastically welcome the concept. I think it would be fair to say that part of the concept that we accept is the administration's suggestion that they are merely listing programs as illustrative and that they would welcome an agreed upon list of programs which we would hope to work together with the Congress to arrive at, which would provide the States with the kind of flexibility and opportunity to increase levels of service at funding levels already projected for the Federal bureaucracy overseeing the program.

So, we want to work closely, and we very frankly, in asking the committees of the National Governors Association, are asking them to assess based on the criterion I mentioned, the programs that might best work in such a block grant proposal, and if they happen to be those that are on the illustrative list of the administration, I suppose that is fine. If they do not, our indication from the administration is that they are married in no way to the list at all, but that it was merely illustrative.

Chairman SASSER. I understand that the President's Chief of Staff John Sununu spoke with the Governors when the Governors were here during the mid-winter Governors meeting, and that Governor Sununu indicated that whatever block grant was agreed to by the Governors and the administration would be fully funded.

Yet, when we look at these programs, our analysis of them indicates that over 5 years there is a short-fall of more than $27 billion for the programs that the administration has proposed and what is needed to fund these programs the administration has selected at their current services level. We analyzed it for a number of States, including my native State of Tennessee. For Tennessee, the proposal would mean a $250 million short-fall over 5 years, and we are already desperately strapped for funds there.

Our very able Governor, Ned McWherter, is going to his legislature now, asking for an income tax, for the first time in the history of our State, to meet the very difficult fiscal problems that we face.

If indeed there is a $27 billion short-fall here, how in the world are the States going to meet it? Are they going to raise taxes, cut programs? How are we going to handle that? That is my problem. We try to segregate these things into Federal, State and local parts but, in the final analysis, it is all one country and it all has one great need. Frankly, I do not know how we are going to fill that need, if we are reducing funds going to the State level, thus pressuring States to reduce the funding at the local government level, to try to make up the short-fall.

What do you say about that, Governor?

Governor ASHCROFT. Well, my understanding of the administration proposal is not that there would be "full funding." It is that the funding would be identical, whether the program were to be administered federally or at the State level, and I think the projection you have made that there will be a short-fall is that the projection, according to the budget, would be a short-fall, whether it comes back as a block grant or not. So, you are looking at what you would call a $250 million short-fall for Tennessee—is that what it was?

Chairman SASSER. $250 million, yes.

Governor ASHCROFT. And your choice, in terms of the block grant issue, is whether you want that $250 million short-fall to come with a lot of bureaucratic strings attached, or whether you would be better served and have a better opportunity to accommodate and digest that kind of problem, if you had the flexibility to deploy the resource intelligently and effectively at the State level.

I believe that there is virtually no governor that would not prefer, if he has to digest the problem of declining revenues coming from the Federal Government, to have the problem to digest with the flexibility and opportunity to serve the citizen, rather than the system, with the elimination of the bureaucratic overlay.

So, the commitment of the administration and one of the things that convinced me of the good faith of the administration was that they have basically laid out the 475 block grant categories and said choose, and they have 5-year projections, and if we can have the same good faith on the part of the Congress that these programs would be similarly funded, whether State run through the block grant or maintained in the Federal bureaucracy, I think virtually every governor would prefer to have the flexibility and opportunity to administer these programs and deploy the resources more effectively and efficiently without the Federal guidelines than they would with the red tape. And the fact that there may be a diminished resource heightens our need for the efficiency and flexibility, rather than saying we do not need it.

As a matter of fact, the more deeply the budget cuts come, and if that is what the handwriting is on the wall, the more desperately we need the flexibility.

Chairman SASSER. You indicated earlier that medicaid costs in the State of Missouri are considerably outrunning your increased revenues, although your revenues are increasing at a very handsome rate.

Medicaid has been the fastest growing portion of most State budgets, as you know, from 8 percent in 1980 to 14 percent today.

In fact, my governor has told me, "We just can't take any more increased medicaid costs in our State."

Governor, are you confident that States would not be caught on the short end here, if the matching rates now paid for your medicaid administrative cost were converted into a discretionary block grant——

Governor ASHCROFT. I do not think that block grant in medicaid would necessarily solve the problem. We are in trouble because of mandates that require us to undertake certain types of health care delivery, and those mandates are literally the PAC MAN of State budgets. They are eating our budgets faster than we can create the wealth to sustain them, and I do not know that flexibility would do that.

We would like to have additional flexibility in a lot of ways. When I spoke of medicaid, it is literally depriving us of an ability to allocate our resources for a lot of purposes, but even in the area of medical services, I know that some medical services in my State that were optional last year, will be non-existent next year because the medicaid mandate has captured the discretionary State funds, so I said we are going to cut certain kinds of dental services out of what we previously offered and we are going to cut certain kinds of other health care services that were optional. The Congress has told us we are going to have to expand in this area, and we do not have the money to do both. We cannot buy both guns and butter, and since butter is our only option, we will cut it and we will have the guns.

Chairman SASSER. Of course, we at the Federal level buy both guns and butter at the same time. We just borrow the money to do it.

Governor ASHCROFT. I could not have said it better myself, Senator. [Laughter.]

Chairman SASSER. My time is up. I will turn now to Senator Symms.

Senator SYMMS. Thank you, Mr. Chairman.

Governor, in the conflict that appears to be brewing outside the beltway between the mayors and Governors, do the Governors not have to pay considerable attention to the constituencies the mayors and Governors represent, since they are one and the same?

Governor ASHCROFT. Well, I certainly do, and we do not want there to be a conflict. I think the Governors would like to move the kinds of things that threaten mayors and cities, in terms of the categorical grants, off the table. Since this is a proposal for about $15 billion, we think that there are categorical grants going to the States that we could focus on for block granting here that would not threaten the municipal governments.

We are not only sensitive to what is happening in our cities, because we can be healthy States if we do not have good cities, but, secondly, we do not want to be involved in that kind of controversy.

Senator SYMMS. In view of the fact that there is $171 billion in Federal grants to State and local governments, then what you are saying that $15 billion is more of a trial amount. We would prefer to have that amount come out of the Federal funding that goes directly to the States and is focused on the States, rather than have that somehow shift from funds which were otherwise going to the cities and then running them through the States.

Governor ASHCROFT. It seems to me that, of the $171 million, there are clearly going to be well over—pardon me, billion, that is the difference between State government and Federal Government, in talk in millions too frequently—it seems to me that we can find and I hope that our committees will come up with proposals, to confer with the Congress and the Administration about, which do not really threaten funds which are moving now from the Federal Government to the city.

Senator SYMMS. You are speaking not necessarily for yourself personally, but for the National Governors' Association. Do you believe that the Governors, in general, would prefer to have $15 billion less in accumulated Federal debt, or have this program in the block grants?

Governor ASHCROFT. I cannot speak for the other Governors in that respect. [Laughter.]

Senator SYMMS. I had to ask that, Mr. Chairman, because I found out how successful the Governors were in 1986 about running the block grant system. My Governor was very able at going from community to community, making the grants, and he was always very generous to be sure to give me credit for the Federal debt that was being accumulated in Washington, and so it makes one wonder about the efficacy of these programs, because of the accumulation of debt.

I wanted to ask you, you mentioned it in your testimony and the chairman asked you a question about the mandates with respect to medicaid. Do you have any sense of the savings in the administrative costs, if the administration of medicaid were turned over to the States?

Governor ASHCROFT. I do not. I am unable to answer that question.

Senator SYMMS. Is this something that the National Governors' Association might be able to try to give us?

Governor ASHCROFT. Yes, sir.

Mr. SCHEPPACH. Let me just indicate that we have had pending with OMB a proposal to combine the administrative costs for AFDC, medicaid and Food Stamps under a pilot, to allow 15 States to go out and try it and see what kinds of increases in efficiency and savings there would be available, so that is the portion that we would sort of like to move forward, is really to try it. There is not a lot of savings, I think, on the administrative side of this. I think it is the increasing mandates which are the real expensive portion.

Senator SYMMS. In a similar manner, we already have a federalism program with respect to the Federal Aid Highway Program. What kind of savings do you think could be achieved, if we reduced the numbers of mandates from the Federal Government with respect to the Federal Aid Highway Program, which already operates on basically a block grant system, in areas like Davis Bacon and other Federal requirements that increase the cost of highways?

Mr. SCHEPPACH. It is real hard to say. There are several in the highways program which create some problems, but I think, in all honesty, that 90 percent of our mandate problem is in medicaid, and that is the real problem for State government.

Senator **Symms**. 90 percent is in medicaid?

Mr. **Scheppach**. Yes; you are looking at medicaid now increasing 25 percent this year. It is going to cost you in the Congress $8 billion extra, it is going to cost us at the State level $7 billion extra, and a lot of that has been driven by mandates over the last 3 to 4 years. We have not even seen yet the mandates that you put in the last reconciliation bill.

Senator **Symms**. So, this would be an area where you anticipate the Governors will focus on for more block grants and less mandates, in medicaid?

Governor **Ashcroft**. Well, we want fewer mandates in medicaid. We desperately need the relief of just a moratorium so that we can digest what has already hit us. I do not think that our main focus will be in this area, when we come with a proposal and try to talk to you about developing a consensus on block grants. We think those will be in the other 470-some categorical grant areas.

Senator **Symms**. Thank you very much. I appreciate your testimony, both of you.

Thank you, Mr. Chairman.

Chairman **Sasser**. Thank you, Senator Symms.

Senator Exon?

Senator **Exon**. Mr. Chairman, thank you very much.

Governor, welcome to you here. We are very pleased that you came in to testify. As a former Governor, I have always taken a keen interest in the problems of the Governors, and I think they are magnified by recent events, much more so than the 8 years I served as Governor of Nebraska.

First, I think we should have a clear understanding, because I am not sure that there is a total appreciation of what this proposal by the administration is. It is not revenue sharing.

When the program first came up, I was asked by a reporter, well, is it not just like revenue sharing in the 1970's. I said no, my understanding of it is that it is not. As a Governor, I was delighted with revenue sharing. I remember Christmas time back there in the mid-1970's sometime, we got a check for several million dollars. I do not know how much it was, but it was a nice Christmas bonus that we received, without any strings attached. That is not what this proposal is.

I have some really grave reservations, and I think you and some of the other governors have already recognized, and I do hope that you will give us, when the report comes out that you indicate you are working on—please expedite a copy of that to us, as we work through this process of trying to be fair in our allocation of funds.

I appreciate very much the statement that you made, and if I understood it correctly, you said especially with a shrinkage of the amount of total funds that is likely to come about because of the budget crunch, you thought that there was even more of a necessity then to give it to the States, because you thought they could use the decreasing funds better than they have been used in the past.

I would certainly agree with that on several programs that I could think of. I do not know whether Missouri uses any of the essential air service funds. We do in Nebraska and several other States. It seems to me that is a program that, indeed, the States could run a whole lot better than we could out of Washington.

There are some other areas I have some concerns about. I was very pleased to hear you say that whatever block grants you governors are going to make recommendations on, would be those that would not interfere with other types of block grants or other grants that customarily go to the municipalities, and I think that, above everything else, might solve any disruption between the governors and the mayors, both of whom we rely on for a good deal of advice.

However, I think I have a duty to say at this time that, personally, I would be delighted if all of the block grants could be shoveled off to the States, especially under what I assume to be the administration's proposal.

You would be entitled to assume that there would be some money coming forth for all of the above in the years to come, but, as near as I can tell, there has been no commitment made that the funds would continue at the present level of funding of any of these programs, or that we would even consider in future budgetary years increasing the funds even by the amount of inflation.

I would only say to you, as a governor and up-coming head of the National Governors' Association, that if I were still a member of that organization, I would have some grave reservations about the basic thrust of this program. While it sounds very good, and, once again, I think it would be wonderful to be relieved of all the responsibility, Mr. Chairman, for trying to take care of my constituents in Nebraska or your constituents in Tennessee. Any time we had a complaint, we would just say, you know, check with the governor, he has got the money and it is all up to him.

Let me put my question this way: Governor, you know very well that there are serious problems out there in the rural areas with providing health care. It is true, as the mayor from New York will probably testify, in the inner city. But a key part of the President's budget proposal is to reduce medicare payments to medical providers. Has the National Governors' Association reviewed these proposals, to determine their effect adversely on rural America, or have you, as the Governor of one heavily rural State, in certain parts of your State, reviewed that? It is a major concern to me in Nebraska.

Governor **Ashcroft**. Let me just take a couple of minutes to address a couple of these items you have raised.

First, the issue of whether or not these funds would be declining, our understanding from the administration is that we can rely on their 5-year projections, so that whether or not the program was to be federally administered or goes to the State by way of block grant, those projections are there as projected amounts for deployment.

If the Congress would similarly assure us in good faith that once a program became a State block grant program, it would continue with the same good faith effort along projected lines, that would be comforting to us.

Senator **Exon**. Let me interrupt you right there. That is a fallacy, to start out with. No Congress can bind the next Congress. We could give you our good intentions, Governor, but we cannot assure you of that.

Governor **Ashcroft**. I guess nor could you assure us that there would be level funding. I was trying to draw the difference between level funding and projected funding that appear in the budget. There will be some that go up and some that go down. I guess that has been historical.

On the health care issue, we have a major challenge across America regarding health care. I think every governor knows that because health care is the driving force that is eating away our capacity to do other things, including educate our citizens and commit the right resources to infrastructure, which really have an impact on the future of the country.

Booth Gardner, the Chairman of the National Governors' Association, has under way currently a health care initiative, and the entire effort of the Governors this year is directed toward health care, including rural health care, and we will be able to make some more comprehensive reports about the way in which we respond to those challenges and the direction we want to be able to go at our next meeting, because we have a very substantial effort under way among all the Governors to address those issues.

Senator Exon. Thank you, Mr. Chairman. Thank you, Governor. My only advice is be careful.

Chairman Sasser. Thank you, Senator Exon.

Senator Lott?

Senator Lott. Thank you, Mr. Chairman.

Governor Ashcroft, it is a pleasure to see you again and to have you here. I would like to say to the mayors also, we are delighted to have you here and we look forward to hearing your testimony.

There are some parts of this proposal that are attractive to all of us, including me. The idea of the consolidated block grant has some appeal, flexibility has appeal I think to those of us who work in the Federal Government, certainly, and at the State level, the idea of these decisions being made closer to the people, and the idea that we might eliminate some bureaucracy.

Now, it will be argued by others perhaps, "Well, you are shifting it, you are shifting it from the Federal bureaucracy to a State bureaucracy, and they are not necessarily any better at the State level than at the Federal level." I do not buy that. I think that there is less bureaucracy and they do a better job at the State level.

I have to confess, when I first met with the Director of the Office of Management and Budget, and these ideas were presented and it was suggested, I had some concerns about it, because I do represent one of the poorest States in the Nation. The idea that you would be transferring these programs, but not necessarily all of the money that should go with them, if not now, in the future, caused me a lot of concern.

I also am a little bit concerned about the fact that, from the Federal level, these programs are sort of out of sight, they would be out of mind, also, and that while it might work well at first, down the road the amount of funding might decline. So, I see some positive aspects, but I am concerned about it in some respects, too.

I think maybe you have already touched on one of the solutions with regard to the cities, Governor, and that is that include only those programs that now go to the States, do not get into their till at the city level, and make this block grant only applicable to the programs that you now have.

So, let me start off by asking, do you have any response to what I have said so far, particularly with regard to maybe just moving one bureaucracy from Washington down to Missouri or Mississippi or New York, or wherever it might be?

Governor **Ashcroft**. Well, I firmly believe that we will eliminate substantial bureaucratic overload, as we try to consolidate services. Right now, a caseworker in my State is trying to help a young mother with AFDC with Food Stamps and has to document the work in 4 or 5 different separate categorical programs, and the paperwork is depriving us not only of our resource, in a sense, but it keeps that caseworker from being able to address the needs of more individuals. It cuts down on our efficiency. We could wipe a lot of that out, if we could unify this approach and reduce the paper flow from a number of paper trails at least to a single paper trail. Even if we had all the same levels of bureaucracy, Federal and State, just reducing the number of trails going up the bureaucracy would be a substantial improvement.

The other point, about out of sight, out of mine, is it possible that the Congress will lose its willingness to continue to fund the programs once they are primarily managed at the State level? I would hope not, and our experience does not provide us with a suggestion that there is a substantial danger there.

In the last year, I think the block grants that were started 10 years ago were increased in funding. I think last October there was a $700 million increase in the block grants that we have been working on, so we consider our experience in some of those areas to be pretty successful, so history does not indicate to us that there is a necessary abandonment of these concerns, once they become block grant oriented.

Senator **Lott**. I am pleased to see the apparent willingness to work together between the Governors and the President and the administration.

Let me talk process a minute. You suggested that perhaps you have been given a menu and said, OK, you choose. How is that process going to work now? Are the Governors going to get together and select or choose the ones you would like to have included in this package?

Governor **Ashcroft**. We have charged the committee chairmen of the standing committees and other organizations of the National Governors' Association to make a quick review of the kinds of categorical programs that have the right common thread of purpose and that would be productive in terms of the relief of bureaucratic overload and systemic inefficiency and to present those as a potential.

Now, we would like to confer with you and the administration about them. Very frankly, the administration has sort of offered a blank check that basically said our program is——

Senator **Lott**. They do that all the time.

Governor **Ashcroft**. Well, I do not mean in terms of the amount of dollars, but they say in terms of what programs. Now, the National Governors' Association met with the House leadership about 2 weeks ago, and since then the majority leader Dick Gephardt came to my office and assured me that he wants to continue to work in this respect.

So, I think if we could develop a list of programs and ask the administration to honor its word—that is one of the things that has convinced me of the credibility of the operation, if they were to have a hook in the bait somewhere here, the hooks have to be in all of the baits of all of the programs, and since 9 out of 10 programs are going to remain with the bureaucracy, if we get hooked as a result of this, it would be that there would be 9 other hooks to be left at the Federal level. It seems to me that if good faith exists, we ought to be able to select programs and try this out.

Senator LOTT. My time is expired. Just one comment, before I yield, if I could, Mr. Chairman.

You know, one of the things that bothers us is a lot of times we provide Federal programs, Federal funds to the States and then the Governors pass it out around the State and say, "Gee whiz, look at what we've done for you," and we are up here taking a pounding, because we are voting for some of these programs and the Governors, you know, are taking the bows. I hope you all will take that into consideration in the way you handle these funds when you do get them.

Governor ASHCROFT. I must apologize for the fact that one of the primary responsibilities of a Governor is to take credit for good things that he had nothing to do with, and duck the blame for bad things with which he was deeply involved.

Senator LOTT. I am sure you do not do that.

Governor ASHCROFT. Never. [Laughter.]

Chairman SASSER. Thank you, Senator Lott.

Senator Lautenberg?

Senator LAUTENBERG. Thank you very much, Mr. Chairman.

Welcome, Governor, and our friends from the cities, as well. I hear the criticism largely directed at the bureaucracy and I understand that it is a fairly cumbersome process. Unfortunately, government is complicated. Lots of interests have to be served, and legitimate interests for all of the States and the communities.

I see sharp declines in the Federal contribution that I do not think can be attributed to the bureaucracy in city after city, and I look and I see Kansas City, Missouri, according to the Conference of Mayors, that Kansas City saw a decline in the decade of 1980 to 1990 of 55 percent assistance from the Federal Government, in significant dollars, and whether $12 million worth of these include the inflation factor or not, I do not know. The State's contribution has also declined in that period of time, and the city has increased, and when I look further, I see that Kansas City has, under State law, increased its local taxes to the maximum in the last year, cities that have increased taxes.

It does not present a very bright picture, and I just wonder, you did discuss the tension that could arise between the cities and the State government. How about within the Governors' organization? I note in your presentation, you say the National Governors' Association has responded positively to President Bush's concept of turning over at least $15 billion. Do you have a measure of that support? Was there a vote, was it a unanimous vote or a bare majority, was it a 51 to 49 kind of thing? Was there anything like that that endorsed this concept that you can tell us here, that would indicate the level of support?

Governor **Ashcroft**. We did not have a vote that I could tally for you. This is a concept that came up during the meeting, and we invited—as you recall, I think the budget came down on Monday and that was right in the middle of the meeting, so the normal resolution and the policymaking process of the Governors had not operated. But I do not think I would be misrepresenting at all if I were to say that there was a very substantial consensus about the block grant concept among Governors, a significant enthusiasm, as well——

Senator **Lautenberg**. And no apprehension—forgive me for interrupting, but I watch that little timer in front of you—no apprehension about the fact that this is a path that leads eventually to a more serious problem, by virtue of the ability to cut programs fairly simply that otherwise have to almost be negotiated, because there are interests that abound within these programs?

Knowing your State, I was in a place called Neosho, MO, for some time many years ago, when it used to be a major Army base. I know there are hogs raised in Missouri, and I assume you do not want to buy a "pig in a poke" by accepting a program that could easily be curtailed substantially, when it does represent value.

The notion that you are going to have more control over these things I think is pretty inviting, but when you look at the size of the pie that might be delivered to you, I think that you might have second thoughts about how good this program is.

Governor **Ashcroft**. I have two comments about that. If the size of our pie is going to be declining, we need more opportunity to deploy that resource flexibly and efficiently, and it is my understanding that it is very likely that the pie is going to be declining, and it may be in the best interest of the entire country that we do that.

Senator **Lautenberg**. How about the situation where States pick a program that places them at a competitive advantage? You have some very distressed neighbors across the river there. If you decide to clamp down on welfare programs, assistance programs, is it not likely to drive those people to another State, where survival may be a better opportunity? How about education, attracting people at a higher level? Do you not see any basis for a competition between the States that aggravates the relationships, instead of presenting, as you describe, a national opportunity?

Governor **Ashcroft**. Well, there is no question about the fact that different States deploy their resources differently and, as a result, some people find the State more inviting. I think different States have different commitments to education, but I think that is a consequence of having 50 States. As a result, some of the good that flows from that are States develop something that is pretty successful and it does not take long for other States to latch onto it.

We developed an enterprize zone potential in the State of Missouri and it started working pretty well, and I found that our neighboring States were working in that directly, as well, pretty quickly.

Senator **Lautenberg**. As I close, Mr. Chairman, taking advantage of your good nature——

Chairman **Sasser**. All the other Senators do that, also.

Senator **Lautenberg**. That is why I am taking advantage of it.

I am chairman of the Transportation Subcommittee of Appropriations, Governor, and we have a responsibility for making sure that requests are considered for funding, and I was encouraged by Senators Bond and Danforth to come to St. Louis and investigate the light rail prospects there. During that investigation, I think what I saw was a need that had to be considered. They tried to persuade me that Missouri's needs were greater than New Jersey or Illinois or other places around.

I think we kind of fool ourselves a little bit, if I may be direct, when we start talking about the rights of the States, the Federal concept, on one hand, and, on the other hand, come into Washington and say, listen, I appreciate the Federal support, but I want to be able to make my decision by having the Federal Government invest more in transportation or housing or what have you, and I think we have a very serious philosophical problem that has to be resolved, and this is as good opportunity to do it.

Governor **Ashcroft**. Well, on transportation, we want our money back. We want to get the lid and the cap on transportation up, and we hope that the new proposal, which would move again from $14.5 billion to $16.8 billion, I guess, and then on up over $20 billion, we think that is State money, we want it back, and we want the additional flexibility to allow us to do light rail, which we believe is part of the new proposal, so we are very strongly in support of that new proposal——

Senator **Lautenberg**. For essential air service——

Governor **Ashcroft** [continuing]. Which would——

Chairman **Sasser**. I do not mean to interrupt you, Governor, but maybe you and Senator Lautenberg could talk about this before his Transportation Subcommittee. [Laughter.]

We have got a number of very distinguished mayors waiting here and I am eager to get to them.

Senator Brown?

Senator **Brown**. Thank you, Mr. Chairman.

Governor, we appreciate your coming, and I would like to add my voice of thanks for your fine testimony. I must confess that I do not share some of the concerns that have been voiced so far about the program. First of all, the concern that the Federal Government would not continue to spend this money does not appear well founded. Last year Congress developed a rather urgent program to reduce the deficit. In a valiant effort to reduce the deficit, the Federal Government has increased spending 13.8 percent thus far this year.

If someone can look at the record of the Federal Government this last decade and conclude that they have been overly concerned with controlling spending, I would think that is a testimony to their imagination but not to the facts. The reality is the problem with this Congress and with past Congresses has not been that we have been too tight-fisted.

The other concern that was articulated and that is on many people's minds, is would these programs be out of sight, and thus out of mind. We meet with school boards, with mayors, with teachers, with virtually every interest group imaginable that would receive this money on a regular basis in our Washington offices. So I don't know as anyone could seriously contend that the recipients of this money will be out of sight or out of mind, or that anyone who serves in either the Senate or the House could possibly avoid hearing from these groups that articulate sincere needs.

I do have a concern, though. I hear from school boards and mayors who are concerned that the Governors or the State legislature of the states might take a cut out of this money. They are concerned that we might replace Federal bureaucracy with State bureaucracy. Some of the enthusiasm we hear for this program is by people who don't now get the money who would like to. Some of the objections are people who now get the money in the programs but are not sure they would in the future.

My question is this: What kind of attitude would the Governors have toward this program if the only money block granted to the States was money that already goes to the States and that money that now goes to the local level would be block granted directly to the local level?

Governor ASHCROFT. First of all, I think that is a program well worth exploring—block granting more of the money that goes to cities, and I think it would be consistent with the philosophy of this proposal, which is block granting more of the money that goes to States. And because we don't have any quarrel with the cities, we would prefer to focus this proposal on funds that don't normally flow to the cities so as to not threaten or impair their resource. But States have not been particularly unkind to cities. Over the last decade, the amount of State aid going to cities has gone up more than the increase in our general revenue receipts, so that we have been increasing our aid to cities nationally. Now, there may be States where that's not particularly true, but nationally we have sought to cooperate, and our constituents are the same.

I do not see this as a means to try and promote an additional bureaucracy or an additional layering or some way that we would take a cut of money going somewhere else. First of all, we are suggesting that the money we received in block grant be money already coming to us, so we wouldn't be taking a cut of money going somewhere else. And, secondly, I think we can reduce the number of streams of paper and the requirements that now exist with the narrow resources to free those resources to meet the needs more flexibly.

Senator BROWN. Thank you. I yield back.

Chairman SASSER. Thank you very much, Senator Brown, for yielding back some time there.

Senator Simon?

Senator SIMON. The chairman is a little startled by that action on your part.

Senator BROWN. I won't repeat it. Don't worry. [Laughter.]

Senator SIMON. Let me just comment first on your comment about the Federal Government and whether or not it is too tight-fisted. We are not tight-fisted when it comes to weapons systems. We vote for things that we are never going to use—hopefully never going to use. There is a crisis in the Middle East. We have 500,000 people there. We have the money there. There's an S&L crisis. You know, if it has to be $500 billion, we are going to get $500 billion there. But when it comes to education, all of a sudden our Federal budget has gone from 9 percent of the Federal budget for education in 1949 to 3 percent of the budget for education in the current fiscal year. It depends on what we are responding to, and I don't think we are responding where we ought to be responding.

Governor, my concern—and it has been expressed by my colleagues here—is that we are not going to respond to the great needs. You handle yourself very well. I can tell you got that part of your education in the State of Illinois, and we are very proud of that. But Senator Lautenberg mentioned that Kansas City—and St. Louis is not listed, and I don't have the statistics here. Kansas City has lost 55 percent of its Federal funds in the last 10 years. It has lost 10.8 percent of its State funding in the last 10 years.

Now, I am not blaming you, but the reality is Chicago—let me just use Chicago as an example—lost 60.5 percent of its Federal funding, 11.4 percent of its State funding. The reality is if you are from Sikeston, Missouri, or Hannibal, Missouri, it just is not politically popular to be voting money for St. Louis or Kansas City. And if you are from rural southern Illinois, where I am from, and you are a State legislator, you don't make any points back home voting money for the city of Chicago. And yet we as a Nation are stockpiling the poor more and more in our cities. The needs are growing. Our response to cities' needs are not growing.

When I look, for example, the city of Chicago gets $460 million in Federal aid, or will this year, $124 million would be knocked out by this block grant. The question I have to ask myself is: Is Chicago likely to get that $124 million in this if we move to the block grant?

I have to say real candidly—and I don't mean that disrespectfully to the Governor of my State or the State legislators in my State—I think it is unlikely. I think that $124 million, they will get some of it, but more of it is going to be spread around the State, and that is particularly true after we have reapportionment very shortly, where the power of the cities is going to diminish while their problems grow.

Now, I would be interested in any reaction and response you might have.

Governor ASHCROFT. First of all, it is a result of that misgiving you have that prompts us to take the $124 million off the table that you are concerned about. You said that it would knock out that. We don't want to put in the block grant the kinds of things that go to the cities. Let those persist. The Governors want to avoid that in terms of crafting this proposal.

Senator SIMON. Could I interrupt then? You mentioned that the Governors and the State legislators are going to get together to craft a proposal. Why not include the Conference of Mayors as you craft it? Why not include the League of Cities? Why not include the counties in this Nation?

Governor ASHCROFT. I think it is fair for me to say that we would be pleased to have their input on it, just so that if they felt threatened by some of these things and if we included something that would buy their opposition, we would like to disinclude it so as to buy their support.

Senator SIMON. Well, if I could suggest maybe go a little beyond getting their input, if you could just sit down and agree that you are going to get a package, then, frankly, I am willing to look at that package. If those mayors in back of you come to me and say—if David Dinkins comes to me and says, "I think we've got a package that's going to help New York City," I am willing to listen. If David Dinkins comes to me right now or Richard Daley comes to me right now, and they say, "I think we have a package that's going to hurt our cities," I am not very sympathetic, frankly, because I see these needs in the cities mount.

Governor ASHCROFT. May I just make one other remark about Kansas City? I question the data from which you are working. The State, for instance, has about between a $150 and $200 million dollar a year Federal mandate to fund the schools in Kansas City, which is probably not included in that and which is a substantial reduction on the budget.

Senator SIMON. It is not obviously.

Governor ASHCROFT. We have a similar one in St. Louis, and those make up about a quarter of a billion dollars a year in terms of what the State is doing. And it is unfair to suggest that the people around Missouri, including those in Sikeston, don't substantially subsidize those efforts there.

Senator SIMON. If I may get back to my question here, and that is: Are the Governors willing to sit down and work out an agreement with the Conference of Mayors to present something to us?

Governor ASHCROFT. We will try to do that.

Senator SIMON. Good. Thank you, Mr. Chairman.

Chairman SASSER. Thank you very much, Senator SIMON.

Thank you, Governor Ashcroft, for appearing here this morning and giving us the view of the Governors of the country. We very much appreciate your appearing, and you have done an outstanding job in presenting the views of your association. Thank you, Governor.

Governor ASHCROFT. Thank you.

Chairman SASSER. Next we have a panel of distinguished mayors from across the country. We are pleased to have with us this morning the Honorable Raymond Flynn, the mayor of Boston, MA. Mayor Flynn was elected to the House of Representatives in the Massachusetts State Legislature. He served as a city councilman before he became mayor of Boston. He has achieved and maintained a balanced budget in the city of Boston over the past 5 years, and, Mayor Flynn, we at the Federal level find that to be a very impressive achievement indeed.

Mayor Flynn has served as chairman of the U.S. Conference of Mayors Task Force on Poverty, Hunger and Homelessness. He now serves as the vice president of the Conference of Mayors.

He is joined by the distinguished mayor of the city of York, PA, Mayor William Althaus. Mayor Althaus has distinguished himself as one of the Nation's most active mayors. He has served for 10 years as the mayor of his native city of York. He served on the advisory council to the U.S. Trade Representative, and we are very pleased to have him here this morning. He serves as second vice president of the Conference of Mayors.

Last, but not least, is the distinguished mayor of the city of New York, the Honorable David Dinkins. Mayor Dinkins has a distinguished record of public service. He served as a New York State assemblyman. He served as the city clerk of the city of New York for a decade. He served as the borough president before becoming mayor. He is an attorney by trade, and perhaps the most impressive accomplishment, as far as Senator Symms and I are concerned, in your résumé here, Mayor Dinkins, is that you are an ex-member of the United States Marine Corps. I say that to Senator Symms because we are both ex-members and proud of it.

Gentlemen, it is a great pleasure to have you here this morning, and we will begin in order of protocol here, as we are advised, with Mayor Flynn and then Mayor Althaus and then Mayor Dinkins.

STATEMENT OF HON. RAYMOND L. FLYNN, MAYOR, BOSTON, MA

Mr. FLYNN. Good morning, gentlemen, and thank you for giving the United States Conference of Mayors and mayors across the country an opportunity to express our concern on the proposal by the President to the Congress, as well as observations about the climate in cities across America. I am very interested and anxious to hear the comments of our Senators as well as the National Governors' Association. And I think perhaps the best way is for me to just to give some straight street talk here about my observations of what is happening, because it is not a beef that we have with the National Governors Association. It is the proposal that was presented by the White House that is pitting Governors and mayors, States and cities, rich and poor, against one another, and I think it needs to be highlighted.

The White House has thrown a proposal out there saying: Let the Governors and the mayors fight over it, fight over the crumbs, if you will. And if they turn on each other, maybe neither one of them will turn on the White House.

How do the Governors respond? Naturally, they are going to like the idea of getting more money and a lot more control over the few dollars that cities get, but in reality it is like robbing Peter to pay Paul. Only in this case, the bottom line really is that both Peter and Paul are going to get less affordable housing; they are going to get less fuel assistance; they are going to have fewer daycare facilities; and they are going to get have fewer opportunities to deal with the issues of hunger and homelessness in communities across this country. So both Peter and Paul lose in a significant way as a result of this proposal.

Let me also add that there has been a significant discussion here on the roles of the Federal, State, and city governments, and Senator Simon was very astute in bringing those points out, as you were, Mr. Chairman. The statistics speak for themselves, and it wouldn't be such a crisis situation now in 1991 if there has not been a steady historic erosion of the Federal Government's commitment to the cities of America. That is undisputable. Statistics speak for themselves.

The figures indicate that, for example, in fiscal year 1981, for key urban spending programs, the Federal Government provided $23.7 billion. The fiscal year 1991 proposed budget would have funded these programs at a level of $10.9 billion. When adjusting for inflation, the fiscal year '91 funding level should be $33.8 billion.

Now, what is particularly disturbing, Senator Sasser—and I think you were making reference to it—is that according to informal surveys we have done, we see that States, because of the fact that they are having serious financial problems, are now taking it out on the cities in terms of their cuts. So, in fact, this is like a double whammy. First, we have had Federal cuts sustained over a period of time, and now we are seeing a steady erosion of State funds. As a matter of fact, in 29 out of 45 States surveyed by the city of Boston, local aid has been cut last year and proposed to be cut for this year. Mayor Dinkins could better talk about the situation in New York where it is affecting billions of dollars. So we are really getting caught between a rock and a hard place, and it is like an urban Darwinism here, the survival of the fittest between State and Federal cuts.

Let's talk a little bit about it, about some of these cuts, because the charts here that we would be happy to provide the members of the committee indicates that between 1980 and 1990 finding for key urban programs have been cut dramatically. In Boston, Federal funds as a percentage of the city's budget have been reduced by 69.2 percent between 1980 and 1990. In Houston, 66 percent; Indianapolis, 79 percent; Los Angeles, 66 percent.

The table below reflects a ten-year analysis of key urban funding programs. Column I shows the funding level for these selected programs in FY81, column II shows what this funding level would be in FY91 dollars, column III shows the funding for each program as requested in the President's FY91 budget, and column IV is the actual level of funding appropriated by Congress.

As the table shows, total funding for these key programs if allowed to keep pace with inflation, would amount to $33.77 billion, while actual funding amounted to $13.07 billion; an increase of more than $2 billion over the President's requested level in the budget.

The table to the right is a more detailed listing of urban funding programs. Column I shows the actual FY90 funding levels. Column II reflects the amount requested in the President's FY91 budget. Column III reflects the actual levels contained in congressionally-passed appropriation bills.

Ten-Year Analyses of Selected Key Urban Programs

Program	FY81	FY81 (adusted for inflation)	FY91 (Proposed)	FY91 (Actual)
CDBG	4.0	5.7	2.7	3.27
UDAG	0.4	0.57	0	0
GRS	5.1	7.3	0	0
Mass Transit	3.8	5.4	2.5	3.27
Employment and Training	5.9	8.4	3.5	4.1
EDA	0.4	.57	0	0.2
Justice Assistance	0.3	.43	0.6	0.7
Clean Water Construction	3.8	5.4	1.6	1.6
Total	**23.7**	**33.77**	**10.9**	**13.07**

**In FY81, AIDS had not been identified, there were no federal programs which provided assistance specifically to the homeless, and drugs were not considered a major urban problem.*

Funding Levels for Key Urban Programs (millions)

This chart shows the actual FY90 and FY91 funding levels for a list of key urban spending programs.

Program	Actual FY90	Proposed FY91	Actual FY91
Community Development Block Grant	2,915	2,750	3,200
Urban Development Action Grants	0	0	0
Housing Development Action Grants	0	0	0
Rental Rehabilitation	128	70	70
Assisted Housing	7,887	15,100	10,800
Public Housing Operating Subsidies	1,790	1,830	2,100
Public Housing Modernization	2,000	1,850	2,700
Economic Development Administration	188	0	209
Low Income Home Energy Assistance	1,393	1,050	1,415
Community Services Block Grant	323	42	349
Social Services Block Grant	2,762	2,800	2,800
Head Start	1,552	1,886	1,952
Older Americans' Act Programs	722	748	767
Job Training Partnership Act—Total	3,919	3,757	4,067
•Block Grant	1,745	0	1,778
•Summer Youth	700	0	683
•Dislocated Workers	464	400	527
•Job Corps	803	966	868
•Other National Programs	207	1,719	211
Homeless Assistance			
•FEMA—Emergency Food and Shelter	130	125	134
•Health Care	36	46	51
•Mental Health Block Grant	28	27	33
•Emergency Shelter Grants	73	71	73
•Transitional Housing Demonstration	127	143	150
•Supplemental Assistance	11	0	11
Drug Abuse Treatment (ADAMHA Block Grant)	1,193	1,293	1,269
Drug Abuse Education	539	593	607
Drug Abuse Enforcement	445	490	473
AIDS			
•CDC	443	509	497
•HRSA	108	68	261
•NIDA	82	63	73
Office of Treatment Improvemnt			
•ADMH Block Grant	1,193	1,293	1,269
•Crisis Area Grants	30	32	31
•Waiting Period Reduction	64	0	0
•Treatment Improvement	40	86	84
MCH Block Grant	554	554	587
National Institute Mental Health	463	475	535
Family Planning	139	139	144
Immunizations	187	153	218
Prevention Block Grant	84	84	93
Medicaid	40,230	44,902	47,366
Airport Improvement Program	1,651	1,800	1,800
Airport Facilities and Equipment	1,721	2,500	2,095
Airport Operations	3,016	1,241	4,037
Federal Aid Highways	12,200	12,013	14,500
Transit Formula	1,625	1,076	1,805
Transit Discretionary Grants	1,281	1,400	1,200
Interstate Transfers	159	0	160
Clean Water	1,991	1,600	2,100
Leaking Underground Storage Tanks	74	75	65
Superfund	1,530	1,740	1,616

Now, on the other side of the ledger, you have seen the States picking up some of that so that we could provide those critical essential services. But as I indicate, it has to be very, very clear that the States now are walking away because of their serious financial problems. Instead, look at New York—and you will hear Mayor Dinkins—where cities are being devastated; or Georgia, where all local aid is being proposed for elimination in the coming fiscal year; or California, where new mandates will cost at least $300 million; in Indiana, a 20 percent local aid cut has been proposed for fiscal year 1992; in Minnesota, where $200 million in cuts to local governments are expected.

I just want to make it clear, as far as the city of Boston is concerned, and I think this might also be helpful. We have received significant and consistent cuts right across the board in all government programs, Federal programs. Let me just list some of these for you.

Between 1981 and 1990, Federal cuts have focused on the following areas: general revenue sharing has gone from almost $22 million to zero; job training, $24.8 million to $2.2 million; Community Development Block Grant, from $26 million to $19 million; Urban Development Action Grants, $21.6 million to zero. That has been a total reduction from $94.3 million to $21.2 million from fiscal year 1981 to fiscal year 1990 in Federal cuts. So we are seeing a devastation at the Federal level, and now we are beginning to see a devastation at the State level as well. And so if we are upset about this proposal or this trial balloon or whatever you want to call it—when I see a budget coming out of the White House by Mr. Darman, supported by Mr. Sununu, it is pretty clear to me that it is a little bit heavier than a trial balloon. To me, this isn't federalism. It is a fraud.

So we are very, very upset about this, and obviously the mayors are going to continue to fight for the crumbs off the table of this shrinking Federal and now State pie. So I hope that this committee will consider the sustained cuts that we are receiving at the Federal level and at the State level seriously, and that chart will point out exactly what I was making reference to. I think this is what the American people have to understand: that it is not frills, it is not exorbitant spending programs, and it hasn't been the cities that created this deficit crisis of the United States Government. Consistently, the Federal Government has walked away from the cities of America. And if the Federal Government is in trouble, it is not the cities that got them there. They got there on their own, and they shouldn't ask the cities of American now to suffer more.

Chairman SASSER. Thank you very much, Mayor Flynn.

[The prepared statement of Mayor Flynn follows:]

CITY OF BOSTON • MASSACHUSETTS

OFFICE OF THE MAYOR
RAYMOND L. FLYNN

STATEMENT OF BOSTON MAYOR RAYMOND L. FLYNN
TO THE HOUSE AND SENATE BUDGET COMMITTEES

FEBRUARY 20, 1991

"REVERSING THE DECADE OF DENIAL -- ENACTING A POSITIVE AGENDA FOR AMERICA'S CITIES"

BOSTON CITY HALL • ONE CITY HALL PLAZA • BOSTON • MASSACHUSETTS 02201 • 617/725-4000

THE WHITE HOUSE'S "NEW FEDERALISM" PROPOSAL IS LIKE A MATCH THROWN INTO A SHED FULL OF DYNAMITE -- A BRILLIANT, YET BANKRUPT POLITICAL STRATEGY TO SET GOVERNORS AND MAYORS AROUND THE COUNTRY AT EACH OTHER'S THROATS WHILE COVERING UP THE FACT THAT THIS ADMINISTRATION HAS NO DOMESTIC AGENDA FOR THE COUNTRY.

RELATIONS BETWEEN STATES AND CITIES ARE ALREADY TENSE -- IN 29 OUT OF 45 STATES SURVEYED BY OUR CITY, LOCAL AID HAS BEEN CUT THIS YEAR, OR WILL BE CUT IN THE COMING FISCAL YEAR. THESE CUTS, ALONG WITH NEW STATE MANDATES PASSED ON TO US, WILL COST THE CITIES OF AMERICA A MINIMUM OF $3.7 BILLION.

TOGETHER, CITIES AND STATES ARE STARVING, AND THE WHITE HOUSE WANTS US TO FIGHT OVER A FEW CRUMBS. CONGRESS HAS TO BURY THIS PROPOSAL -- NOW -- , AND START LOOKING OUT FOR AMERICA'S BEST INTERESTS -- HEALTHY CITIES AND TOWNS.

MAYBE WE'VE GONE ABOUT THINGS THE WRONG WAY -- PERHAPS IF OUR CITIES APPLIED FOR CHARTERS AS SAVINGS AND LOAN INSTITUTIONS, WE WOULD GET THE HELP WE NEED. THE BUDGET AGREEMENT MAY HAVE BUILT A "WALL" BETWEEN DOMESTIC AND DEFENSE SPENDING, BUT THERE'S A MULTI-BILLION DOLLAR "DRIVE THROUGH" IN THE BACK FOR THE SAVINGS AND LOAN INDUSTRY. WE NEED ONE FOR NEEDY AND WORKING PEOPLE TOO.

THE PRESIDENT'S BUDGET IS A CRUEL HOAX ON NEEDY AND WORKING FAMILIES STRUGGLING TO COPE WITH OUR NATIONAL RECESSION. THE RHETORIC -- "NEW FEDERALISM" AND "EMPOWERMENT" SOUND RIGHT, BUT THE REALITY IS MORE OF THE SAME -- FEWER RESOURCES FOR OUR NATION'S CITIES.

NOW, IN LIGHT OF THE PERSIAN GULF CRISIS, WE DID NOT EXPECT A NEW DEAL BUDGET. BUT AMERICA'S CITIES DID NOT EXPECT A RAW DEAL EITHER. AS CITIES ACROSS AMERICA PREPARE TO LAY OFF POLICE AND FIRE PERSONNEL, TEACHERS AND HEALTH CARE WORKERS, THE FEDERAL GOVERNMENT BOOSTS ITS EMPLOYMENT BY 23,111 WORKERS FOR THE UPCOMING FISCAL YEAR! WE'RE DOWNSIZING, WHILE THEY'RE UPSIZING.

NOW, DESPITE A FEDERAL BUDGET DEFICIT THAT WENT FROM $50 BILLION TO ABOUT $300 BILLION IN A DECADE, KEY URBAN PROGRAMS HAVE BEEN SLASHED FROM ABOUT $23 BILLION IN 1981 TO ABOUT $13 BILLION TODAY. THIS DOES NOT INCLUDE THE FEDERAL HOUSING BUDGET, WHICH HAS SUNK FROM $33 BILLION IN 1981 TO ABOUT A THIRD OF THAT TODAY.

AND REMEMBER, IN 1981, NO ONE WOULD HAVE CONSIDERED HOMELESSNESS A MAJOR AMERICAN CRISIS. AND NO ONE HAD HEARD OF "CRACK" COCAINE -- OR AIDS.

IN BOSTON, THESE CUTS TRANSLATE INTO A FEDERAL AID REDUCTION FROM ABOUT $150 MILLION IN 1981 TO ABOUT $64 MILLION TODAY, ALMOST HALF OF WHICH GOES TO THE BOSTON SCHOOL DEPARTMENT. AND IF THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM AND OTHER PROGRAMS ARE HEISTED BY THE WHITE HOUSE'S NEW FEDERALISM PROPOSAL, THE TOTAL FEDERAL FUNDS COMING INTO CITY HALL WILL BE VIRTUALLY NIL.

BACK, IN 1981, THE FIRST TIDAL WAVE THAT WASHED OVER AMERICAN CITIES CAME FROM WASHINGTON. TODAY, IN 1991, A SECOND TIDAL WAVE HITTING MANY OF OUR CITIES IS COMING FROM THE STATE CAPITOLS.

LAST WEEK, MY OFFICE BEGAN A SURVEY OF MUNICIPAL LEAGUES AROUND THE COUNTRY, IN AN ATTEMPT TO FIND OUT WHETHER MY STATE OF MASSACHUSETTS WAS THE EXCEPTION IN CUTTING LOCAL AID TO CITIES AND TOWNS BY $270 MILLION NEXT YEAR, OR WHETHER THEY ARE THE RULE. AND IF INDEED CITIES AND TOWNS WERE BEING CUT, HOW COULD THE WHITE HOUSE JUSTIFY TAKING AWAY LOCAL RESOURCES LIKE THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM, AND GIVING THEM TO THE STATES.

OUR RESEARCH FOUND ONE THING IN COMMON -- VIRTUALLY NO STATES ARE INCREASING AID TO THEIR LOCAL COMMUNITIES. YES, IN LOUISIANA THEY ARE EXPECTING AN INCREASE DUE TO RISING OIL PRICES, BUT THAT IS IN A STATE WHERE LOCAL AID WAS VIRTUALLY WIPED OUT BETWEEN 1985 AND 1990. AND IN WISCONSIN, WHERE TOTAL AID IS GOING UP BY 2.5 PERCENT, THE CITY OF MILWAUKEE WILL ACTUALLY LOSE ABOUT $6 MILLION.

INSTEAD, LOOK AT NEW YORK, WHERE CITIES ARE BEING DEVASTATED, OR GEORGIA, WHERE ALL LOCAL AID IS BEING PROPOSED FOR ELIMINATION IN THE COMING FISCAL YEAR, OR CALIFORNIA, WHERE NEW MANDATES WILL COST AT LEAST $300 MILLION. IN INDIANA, A 20 PERCENT LOCAL AID CUT HAS BEEN PROPOSED FOR FY 1992 AND IN MINNESOTA, $200 MILLION IN CUTS TO LOCAL GOVERNMENTS ARE EXPECTED.

SO, IN SUMMARY, ALL ACROSS THE COUNTRY, STATE GOVERNMENTS ARE DOING IN THE 1990'S WHAT THE FEDERAL GOVERNMENT DID DURING THE 1980'S -- PASSING THE BUCK, BUT NOT THE BUCKS, TO HARD PRESSED LOCAL GOVERNMENTS.

SO, IN THIS CONTEXT, HOW DOES PRESIDENT BUSH'S BUDGET RESPOND TO THESE STATE CUTS IN AID TO CITIES WHICH ARE COMPOUNDING THE DAMAGE FROM A DECADE OF FEDERAL DENIAL AND NEGLECT? WELL, THIS BUDGET TAKES THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM AWAY FROM THE CITIES AND GIVES IT TO THE STATE GOVERNMENTS -- WHILE CUTTING THE PROGRAM BY ALMOST $300 MILLION IN THE PROCESS.

BOSTON CURRENTLY RECEIVES ABOUT $19 MILLION UNDER THIS PROGRAM, WHICH IT PASSES ON TO LOCAL SOCIAL SERVICE AGENCIES, SHELTER PROVIDERS, COMMUNITY DEVELOPMENT CORPORATIONS, FIRST TIME HOMEBUYERS AND BUSINESS DISTRICTS IN THE FORM OF GRANTS AND LOANS. UNDER THE CURRENT LAW, WE HOLD HEARINGS IN EACH NEIGHBORHOOD TO DETERMINE LOCAL PRIORITIES. FROM THOSE HEARINGS, A PLAN IS DEVELOPED THAT, TO THE GREATEST EXTENT POSSIBLE, REFLECTS THE CONCERNS OF THE COMMUNITY.

BY CONTRAST, FEDERAL FUNDS PASSED THROUGH STATE GOVERNMENT ARE FAR LESS ACCOUNTABLE. FOR SOME PROGRAMS, THERE ARE STATEWIDE OR REGIONAL HEARINGS, BUT THEY ARE OFTEN POORLY ADVERTISED AND FEW PEOPLE SHOW UP. WHILE THE STATE LEGISLATURE HAS OVERSIGHT CONCERNING THESE PROGRAMS, FEW CHANGES ARE MADE FROM THE STATE PLAN, AND IN FACT, PROPOSALS ARE CURRENTLY CIRCULATING TO ELIMINATE THE FEDERAL FINANCIAL ASSISTANCE COMMITTEE THAT HAS OVERSIGHT OF THESE PROGRAMS.

FOR A DECADE, CITIES HAVE BEEN THE ORPHANS OF OUR FEDERAL SYSTEM WHILE STATES HAVE THRIVED. IN RECENT YEARS, STATES HAVE BEEN THE RECIPIENTS OF NEW WELFARE REFORM, CHILD CARE AND ANTI-DRUG FUNDS FROM THE FEDERAL GOVERNMENT, BUT THEY, IN TURN, HAVE SHIRKED THEIR RESPONSIBILITIES IN THE AREAS OF HUMAN SERVICES. FOR EXAMPLE, THE STATES' FAILED POLICIES OF DEINSTITUTIONALIZATION FORCED MANY HOMELESS MENTALLY ILL PERSONS ONTO OUR STREETS, TO THE POINT WHERE WE HAVE NOW JOINED WITH ADVOCATES FOR THE HOMELESS IN SUING THE COMMONWEALTH OF MASSACHUSETTS.

SO THIS PROPOSAL IS THE LATEST BAIT AND SWITCH GAME THAT WASHINGTON HAS TRIED TO PULL ON AMERICA'S CITIES. INSTEAD OF REROUTING FEDERAL DISCRETIONARY PROGRAMS TO THE STATES, GETTING FUNDS CLOSER TO THE PEOPLE, THE PROPOSAL ACTUALLY TAKES AWAY BILLIONS OF DOLLARS THAT FLOW TO LOCAL GOVERNMENTS FOR HOUSING, HOMELESS AND COMMUNITY IMPROVEMENT PROGRAMS AND SENDS IT TO STATE AGENCIES, WHICH ARE ONE STEP FARTHER REMOVED FROM THE PEOPLE.

THIS ISN'T FEDERALISM, IT'S FRAUD.

DOES ANYONE REALLY BELIEVE THAT STATE GOVERNMENTS, PLAGUED BY DEFICITS OF THEIR OWN, ARE GOING TO GET FEDERAL MONIES DIRECTLY TO NEEDY FAMILIES ANY MORE EFFICIENTLY THAN THE CITIES? OF COURSE NOT. STATE GOVERNMENTS WILL SKIM ADMINISTRATIVE COSTS TO ADDRESS THEIR OWN DEFICITS.

AS A RESULT, BOSTON MAY LOSE OUR ENTIRE $19 MILLION ALLOCATION, ALONG WITH FEDERAL ANTI DRUG ENFORCEMENT MONIES, PUBLIC HOUSING FUNDS, LOW INCOME FUEL ASSISTANCE AND EDUCATION PROGRAMS FOR LOW INCOME STUDENTS.

IT SEEMS THAT THE MORE "NEW FEDERALISM" WE GET FROM WASHINGTON, THE FURTHER THE MONEY GETS FROM THE PEOPLE PROVIDING DIRECT SERVICES. THE RHETORIC AND THE REALITY KEEP MOVING FURTHER AND FURTHER APART.

SO IT'S TIME FOR WASHINGTON TO SHED ITS PATRICIAN POLICIES FOR THE RICH AND POWERFUL AND START MAKING FUNDAMENTAL CHANGES TO CREATE HOPE AND OPPORTUNITY FOR WORKING PEOPLE IN AMERICA'S CITIES.

TAKE A LOOK AT THE PROGRAMS WHICH HAVE BEEN MOST SEVERELY CUT IN THE PAST DECADE, AND YOU WILL FIND THAT THEY ARE THE ONES WHICH HELPED PEOPLE OBTAIN HOUSING, JOBS AND OPPORTUNITY. URBAN DEVELOPMENT ACTION GRANTS, JOB TRAINING FUNDS AND ECONOMIC DEVELOPMENT PROGRAMS WERE ANNIHILATED AND THE POWER OF CITIES TO ISSUE TAX EXEMPT BONDS FOR HOUSING AND ECONOMIC GROWTH HAS BEEN SEVERELY CUT BACK. THOSE WERE THE REAL "EMPOWERMENT" PROGRAMS BECAUSE THERE IS NOTHING THAT "EMPOWERS" A PERSON MORE THAN A REAL JOB.

INSTEAD, TODAY, YOU GET A FEW MORE DOLLARS TO PUT PEOPLE IN HOMELESS SHELTERS, A FEW DOLLARS THAT TRICKLE DOWN TO US FROM THE STATES TO FIGHT DRUGS, AND, UNTIL THIS LATEST BUDGET PROPOSAL BY THE PRESIDENT, A VERY FEW DOLLARS TO HELP DEFRAY COSTS FOR NEWCOMERS TO OUR COUNTRY, WHO SETTLE IN OUR CITIES SEKING REAL OPPORTUNITY. BUT LITTLE ELSE.

NOW, RECENT REPORTS SHOW THAT A DISPROPORTIONATE NUMBER OF OUR TROOPS FIGHTING FOR US IN THE PERSIAN GULF COME FROM WORKING CLASS FAMILIES IN GENERAL AND MINORITY FAMILIES IN PARTICULAR. WHAT WILL THESE BRAVE SOLDIERS COME HOME TO? WILL THEY JOIN THE GROWING NUMBER OF CONSTRUCTION WORKERS WITHOUT JOBS, THE GROWING NUMBER OF YOUNG PEOPLE WHO CAN'T AFFORD AN EDUCATION, OR THE GROWING NUMBER OF THEIR PREDECESSORS -- VIETNAM VETERANS -- WHO ARE HOMELESS AND WITHOUT HOPE?

THIS IS NOT A TIME FOR CONTINUING THE DENIAL AND NEGLECT WHICH IS RESPONSIBLE FOR THESE SHAMEFUL PROBLEMS. IT IS TIME FOR FUNDAMENTAL CHANGE. BUT WASHINGTON DOESN'T SEEM TO GET THE MESSAGE.

YES, WE SHOULD GET RESOURCES FOR CRITICAL PROGRAMS BACK CLOSER TO THE PEOPLE. BUT FOR ONCE, WHY DON'T WE SEND FUNDS DIRECTLY TO THE FRONT LINES IN AMERICA'S CITIES AND LET THE BENEFITS "TRICKLE BACK" TO THE STATES, INSTEAD OF "TRICKLING DOWN" TO US?

TAKE THE SO-CALLED "WAR ON DRUGS" FOR EXAMPLE. IF WE TOOK ONE THIRD OF THE $10.6 BILLION WE ARE CURRENTLY SPENDING ON DRUGS, OR THE $11.7 BILLION THE ADMINISTRATION PROPOSES AND GAVE IT STRAIGHT TO CITIES THROUGH A "DRUG PREVENTION BLOCK GRANT" BASED ON TREATMENT WAITING LISTS, DRUG ARRESTS, AND OTHER SIGNIFICANT FACTORS, YOU WOULD SEE FAR MORE PROGRESS THAN YOU DO TODAY.

CITIES WOULD BE ABLE TO PROVIDE DRUG EDUCATION FROM KINDERGARTEN THROUGH HIGH SCHOOL, EXPANDED TREATMENT, COMMUNITY OUTREACH AND LAW ENFORCEMENT -- ALL THE THINGS THAT REALLY WORK IN STOPPING THE SPREAD OF DRUGS. AND WE WOULD BE ABLE TO CUT OUT LAYERS OF BUREAUCRACY THAT DOESN'T REALLY KNOW OR CARE ABOUT WHAT IS HAPPENING ON OUR STREETS AND IN OUR NEIGHBORHOODS.

AND LET'S LOOK AT OTHER WAYS WE CAN NOURISH THE "GRASSROOTS" OF AMERICA. LET'S REORGANIZE THE SCATTERED PROGRAMS AT THE DEPARTMENT OF COMMERCE TO CREATE A TRADE AND ECONOMIC DEVELOPMENT PARTNERSHIP PROGRAM FOR OUR NATION'S CITIES, TO ENCOURAGE EXPORTS, TOURISM, TRADE AND ECONOMIC GROWTH. CITIES ARE THE ECONOMIC ENGINES THAT CAN PULL OUR COUNTRY OUT OF ITS PRESENT ECONOMIC DOLDRUMS, IF WE ARE GIVEN THE RESOURCES TO DO SO.

AND GIVEN THE ALARMING FISCAL CONDITIONS IN CITIES ACROSS AMERICA, EXACERBATED BY FEDERAL AND STATE CUTS, PERHAPS IT IS TIME TO PUT FEDERAL REVENUE SHARING BACK ON THE TABLE AGAIN. IF THE FEDERAL GOVERNMENT MERELY LEVEL FUNDED NASA AND HELD THE LINE ON NEW EMPLOYEES, THERE WOULD BE ABOUT $2.5 BILLION AVAILABLE TO KEEP TEACHERS, PUBLIC SAFETY, AND PUBLIC WORKS PERSONNEL ON THE JOB. LOCAL BOND RATINGS WOULD RISE, AND JOB PRODUCING CAPITAL PROJECTS COULD MOVE FORWARD.

OUR STATES DO NEED HELP -- BUT NOT BY GIVING THEM CRITICAL URBAN PROGRAMS. I BELIEVE IT IS TIME FOR THE FEDERAL GOVERNMENT TO PLAY A LARGER ROLE IN HEALTH CARE, BY EXPANDING THE FEDERAL SHARE OF MEDICAID TO 75 PERCENT.

LET'S FACE IT, THERE IS A DIRECT RELATIONSHIP BETWEEN SKYROCKETING HEALTH CARE COSTS AND THE FISCAL HEALTH OF STATE AND LOCAL GOVERNMENTS. IT'S TIME FOR THE FEDERAL GOVERNMENT TO STEP IN AND INTERVENE, AND MOVE TOWARD THE JUST GOAL OF AFFORDABLE HEALTH CARE FOR ALL AMERICANS.

NOW, LAST MONTH, WHEN THE PRESIDENT GAVE THE STATE OF THE UNION ADDRESS, HE SPOKE ELOQUENTLY ON THE ISSUE OF THE PERSIAN GULF. BUT WHAT HE FAILED TO ADDRESS WAS THE OTHER GULF CRISIS -- THE WIDENING GULF BETWEEN THE RICH AND NEEDY AMERICANS. AND HE CERTAINLY DIDN'T SAY ANYTHING ABOUT THE WINDFALL PROFITS THAT THE OIL COMPANIES HAVE REAPED FROM THIS CRISIS.

INSTEAD HE HAS CHOSEN TO CUT FUEL ASSISTANCE TO LOW INCOME FAMILIES 37% -- FROM $1.6 BILLION TO $1 BILLION. IN BOSTON, THAT MEANS THAT SOME 6,000 OF THE 18,000 FAMILIES DEPENDENT ON FUEL ASSISTANCE WILL HAVE TO CHOOSE BETWEEN HEAT AND FOOD.

ONE OF THE STRONGEST FIGHTERS WE HAD IN CONGRESS FOR THE POOR AND NEEDY WAS CONGRESSMAN SILVIO CONTE OF MASSACHUSETTS, WHOSE PASSING IS MOURNED BY ALL OF US. BEFORE HIS DEATH, CONGRESSMAN CONTE SPONSORED A WINDFALL PROFITS TAX BILL, NOTING THAT THE CHEVRON CORPORATION MADE $700 MILLION IN THE FOURTH QUARTER OF 1990 ALONE, MOBIL MADE $651 MILLION AND OTHER OIL COMPANY PROFITS HAVE SOARED TO NEW HIGHS.

CONGRESS COULD NO MORE FITTINGLY MEMORIALIZE CONGRESSMAN CONTE THAN TO PASS THIS LEGISLATION, AND USE THESE FUNDS TO HELP PAY THE FUEL BILLS OF THOSE IN NEED, THROUGH EXPANDED FUEL ASSISTANCE AND WEATHERIZATION EFFORTS.

AND LET'S ALL WORK TOGETHER ON A LARGER ANTI-RECESSION PACKAGE THAT WILL CREATE ECONOMIC GROWTH AND JOBS FOR OUR PEOPLE. LAST NOVEMBER, AT THE "URBAN SUMMIT" HOSTED BY MAYOR DAVID DINKINS OF NEW YORK CITY, I PROPOSED A "COMPETITIVE CITIES" INITIATIVE TO ATTRACT NEW INVESTMENT TO OUR CITIES, TO TRAIN OUR YOUNG PEOPLE IN THE SKILLS OF THE FUTURE, TO HELP THEM AFFORD A COLLEGE EDUCATION, AND TO GET THEM APPRENTICESHIPS AND JOBS WITH MAJOR FEDERAL CONTRACTORS. I AM PLEASED TO SAY THAT SPEAKER FOLEY HAS TAKEN THIS PROPOSAL, AND REFERRED IT TO FOUR COMMITTEES FOR THEIR CONSIDERATION.

BUT WE ALSO NEED STRONG NATIONAL ECONOMIC LEADERSHIP TO BREAK THE CREDIT CRUNCH WHICH HAS GRIPPED THE NATION, AND THE NORTHEAST REGION IN PARTICULAR. DURING A RECENT TRIP TO WASHINGTON, I MET WITH THE HEAD OF A MAJOR AMERICAN PENSION FUND THAT WILL INVEST IN CREDITWORTHY LOCAL ECONOMIC DEVELOPMENT PROJECTS IN RETURN FOR A COMPARABLE INVESTMENT BY THE CITY IN THAT PENSION FUND.

IN FACT, INSTEAD OF WASTING CONGRESS' TIME WITH ANOTHER CAPITAL GAINS GIVEAWAY, WHY DOESN'T THE ADMINISTRATION COME UP WITH SOME INCENTIVES FOR AMERICAN PENSION FUNDS TO INVEST IN JOB PRODUCING PROJECTS IN AMERICA? RECENT REPORTS HAVE DOCUMENTED A FLOW OF OUR PENSION MONIES TO FOREIGN INVESTMENTS. IT'S TIME TO BRING THEM HOME.

JUST AS WE NEED TO "JUMP START" OUR ECONOMY, WE NEED TO "HEAD START" OUR CHILDREN. LAST MONTH, YET ANOTHER STUDY WAS ISSUED OUT OF WASHINGTON DOCUMENTING THAT THE 1980'S WERE "A TERRIBLE DECADE FOR CHILDREN", AS NATIONAL POVERTY, INCARCERATION AND DEATH RATES SOARED.

INCREMENTAL INCREASES IN CHILDREN'S PROGRAMS ARE NOT ENOUGH. WE MUST ACCEPT NO LESS THAN A FULL COMMITMENT TO WIC, WHICH TODAY SERVES ONLY HALF OF THE ELIGIBLE POPULATION, AND TO HEADSTART, WHICH IN 1989, SERVED ABOUT ONE IN FIVE ELIGIBLE CHILDREN.

AND IF WE ARE GOING TO FIGHT INFANT MORTALITY, LET'S REJECT THE PROPOSAL TO DO IT BY CUTTING FUNDS FOR COMMUNITY HEALTH CENTERS, WHOSE PROGRAMS REACH OUT TO WOMEN IN NEED OF PRE-NATAL CARE.

FINALLY, THE PRESIDENT'S BUDGET FALLS SHORT OF WHAT IS NEEDED TO PUT OUR NATION BACK IN THE BUSINESS OF PRODUCING SAFE, DECENT AND AFFORDABLE HOUSING FOR ALL AMERICANS. LAST YEAR, CONGRESS PASSED AND THE PRESIDENT SIGNED A $29 BILLION NATIONAL AFFORDABLE HOUSING ACT. ALTHOUGH IT IS STILL SMALLER THAN THE AMOUNT EXPENDED IN 1981, IT WOULD, IF FULLY FUNDED, BEGIN TO MAKE A DENT IN THE CONTINUALLY RISING NUMBERS OF HOMELESS AND POORLY HOUSED AMERICANS.

THE PRESIDENT'S BUDGET FOR HOUSING FALLS FAR SHORT OF THE AUTHORIZED LEVEL, SO I PROPOSE THAT CONGRESS ENACT A "TRUTH IN AUTHORIZING" LAW -- NAMELY THAT CONGRESS SHALL PASS AND THE PRESIDENT SHALL SIGN NO AUTHORIZING LEGISLATION UNLESS THEY ARE PREPARED TO EXPEND AT LEAST 75 PERCENT OF THE AUTHORIZED LEVEL THE FIRST YEAR AND FULL FUNDING IN SUBSEQUENT YEARS. DON'T PASS AN AUTHORIZATION BILL DURING AN ELECTION YEAR, TELL THE FOLKS IN YOUR DISTRICT ABOUT IT, AND THEN NOT FUND THE PROGRAM THE FOLLOWING YEAR. THAT'S WHY PEOPLE GET CYNICAL ABOUT GOVERNMENT.

I AM SURE THAT SOME PEOPLE IN WASHINGTON WILL ONCE AGAIN TELL OUR NATION'S MAYORS THAT THEY HAVE NO MONEY TO SPEND ON CITIES OR ON POOR AND NEEDY PEOPLE. BUT I LOOK AT A COUNTRY THAT HAS BUILT ONE OF THE STRONGEST MILITARY MACHINES IN THE EARTH'S HISTORY AND I WONDER -- WHY CAN'T WE BUILD STRONG CITIES, STRONG FAMILIES AND A STRONG ECONOMY AS WELL?

PLEASE REJECT THE ADMINISTRATION'S "NEW FEDERALISM" PROPOSAL AND ITS SHORT SIGHTED BUDGET CUTS AND ENACT A DOMESTIC BUDGET THAT REFLECTS THE BEST OF AMERICA, WITH FAIRNESS FOR ALL.

Chairman **Sasser**. Mayor Althaus.

STATEMENT OF HON. WILLIAM ALTHAUS, MAYOR, YORK, PA

Mr. **Althaus**. Thank you very much, Mr. Chairman.

I have, as the other mayors have, a prepared statement, and I haven't the slightest intention of reading a word of it.

Chairman **Sasser**. We will include it in the record as if read.[1]

Mr. **Althaus**. I am sure that would be a better way to handle it. I just want to talk for a minute about what it is that mayors are and what we do, because this is the first time in some years that we have been invited to appear before the Budget Committees, and we frankly appreciate very much the chance to make our points of view known. And when we read in the budget message from Mr. Darman that they want to move power closer to the people by going to the States, and then we see the possibility of the programs that we directly administer, we start to wonder what we are. Are we potted plants that we are not in this process?

I deeply appreciated Senator Simon's suggestion that maybe somebody ought to talk to us. We are the people who pick up the garbage and put the cops on the streets, and we are elected most closely and directly by the people. I am mindful of what was said earlier, that Senators meet with the constituent groups and so do Governors, but no one more consistently day after day is out in the neighborhoods than the mayors of America. We are not a special interest who has to be bought off in some fashion. We are a public interest. We are the people who most closely serve the people of our cities.

Now, if there is to be a new Federal, State, local relation, if there is to be a discussion of that, I think we as mayors would be in favor of beginning a discussion of that if all of the participants were at the same table. What we have got is something we heard nothing about in advance. Perhaps the Governors were consulted, but we weren't. We are involved with a Budget Director who doesn't use the word "city." He refers to sub-States. I don't know. That is one of the most unusual terms. The "U.S. Conference of Sub-States" is appearing before you today. But it indicates in some people's minds where we are in this process, I have a lot of people in my city with very legitimate needs that are not being met. And our concern is obvious that if that goes through the legislative process—and I have no argument with my legislators or my Governor or any Governor. I love them all dearly. They are fine human beings. But legislatures are dominated by suburban and rural interests. And if we set as national priorities drugs, housing, some of the things on this possible turnover list, those cannot be met in that fashion. The political pressure in the decisionmaking process in the legislatures will prevent that from happening.

We have said that the drug crisis in our cities is a national priority. We have said that about the need to house our citizens. And we in the streets of the cities are doing things. If you turn those programs to the States, in effect you are saying they are no longer national priorities because, in our judgment, they won't be done as effectively in that fashion. If you really want to fight some of these wars, give the money to the commanders in the field, and that is the mayors of America.

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[1] See p. 53.

Thank you.

Chairman SASSER. Thank you very much, Mayor Althaus.

[The prepared statement of Mayor Althaus follows:]

Testimony of

THE HONORABLE WILLIAM ALTHAUS
MAYOR OF YORK

On Behalf of

THE UNITED STATES CONFERENCE OF MAYORS

Before the

SENATE BUDGET COMMITTEE
Wednesday, February 20, 1991

Mr. Chairman, my name is Bill Althaus and I am the Mayor of York, Pennsylvania. I am a Republican, and I am here today in my capacity as Second Vice-President of The United States Conference of Mayors.

It is a pleasure to be here today before this Committee. It has been some time between visits to this Committee and before I begin my testimony I would like to make a request on behalf of all Mayors that you once again include us in your hearing schedule as you review the President's Budget. For many years, as you know, state and local officials were always represented before the Budget Committees after submission of the budget, however, over the past several years this has not been the case.

We are not a Special Interest Group. Unfortunately, the distinction between special and public interest groups has been blurred. We Mayors represent many of the same constituents as you do. It is often said that we are the elected officials who are closest to the people. In many respects, we are the front line soldiers of the urban crisis. And many cities around the nation are experiencing crises.

The issue which brings us here today is the President's proposal to turn over a group of domestic programs to the states, the so-called block grant consolidation proposal. Please note that I do not refer to it as a turnback. Most if not all of the programs listed on the Administration's list were not state programs to begin with, therefore to label this proposal as a turnback is a misnomer.

As I said in opening my testimony, I am a Republican and I support my President. However, on this issue I believe the Administration is wrong. My colleagues have eloquently outlined our opposition to this proposal and I will not repeat their criticisms.

However, I would like to put the entire debate into perspective. Several weeks ago, The United States Conference of Mayors released a study entitled "City Fiscal Conditions." I believe each of you has a copy in front of you.

This survey of 50 geographically, politically, and demographically diverse cities attempted to outline the consequences of the last ten years of what many euphemistically refer to as "fend-for-yourself-federalism".

As the following charts show, it truly was a decade of disinvestment for American cities. Federal funding for key urban programs was reduced dramatically. Federal funds as a share of city budgets dropped precipitously. Cities were left with dwindling tax bases to support ever-growing service demands and the states did not step in to fill the vacuum.

Chart I shows that Federal funds as a percentage of city budgets was reduced from an average of 17.7 percent in 1980, to just 6.4 percent by 1990. This represents a reduction of 64 percent, nearly two-thirds. During this time, city budgets were increasing by over 95 percent just to keep pace with severe social problems, such as homelessness, aids, the drug epidemic, and inadequate housing. And of course, there was no room in city budgets for maintaining a crumbling and deteriorating infrastructure. When coupled with a growing array of unfunded Federal and state mandates, and ever-tightening restrictions on our ability to finance needs through the tax-exempt markets, it is clear to see why so many cities are having a hard time making ends meet. And we must balance our budgets every year.

Chart II documents the magnitude of the spending cuts experienced by cities from fiscal years 1981 to 1991. As you can clearly see, a list of key urban programs, including the Community Development Block Grant, which is being targeted for turnover to the states, the Urban Development Action Grant, general revenue sharing, which was eliminated outright in 1986, mass transit, employment and training, the Economic Development Administration, Justice Assistance, and Clean Water Construction Grants, totalled $23.7 Billion in FY 1981. If that same level of funding had been allowed to keep pace with inflation, funding in FY 1991 would have totalled $33.8 Billion. This number reflects no increase, just the inflation level.

In FY 1991, however, these programs were actually funded at a level of $13.0 Billion. This represents a real decrease of 60 percent from the inflation-adjusted level.

If the funding level for these programs had remained as proposed in the President's FY 1991 budget submission, the cuts would have been even greater.

Our final chart shows the changes in the shares of city and state contributions to city budgets. As you can see, in 1980, the city's average share of total city revenues was 64.7 Percent and the state's average share of total city revenues was 11.1 Percent. By 1990, however, the city's average share had increased to an average of 75 percent while the state's average had increased to 12.2 percent.

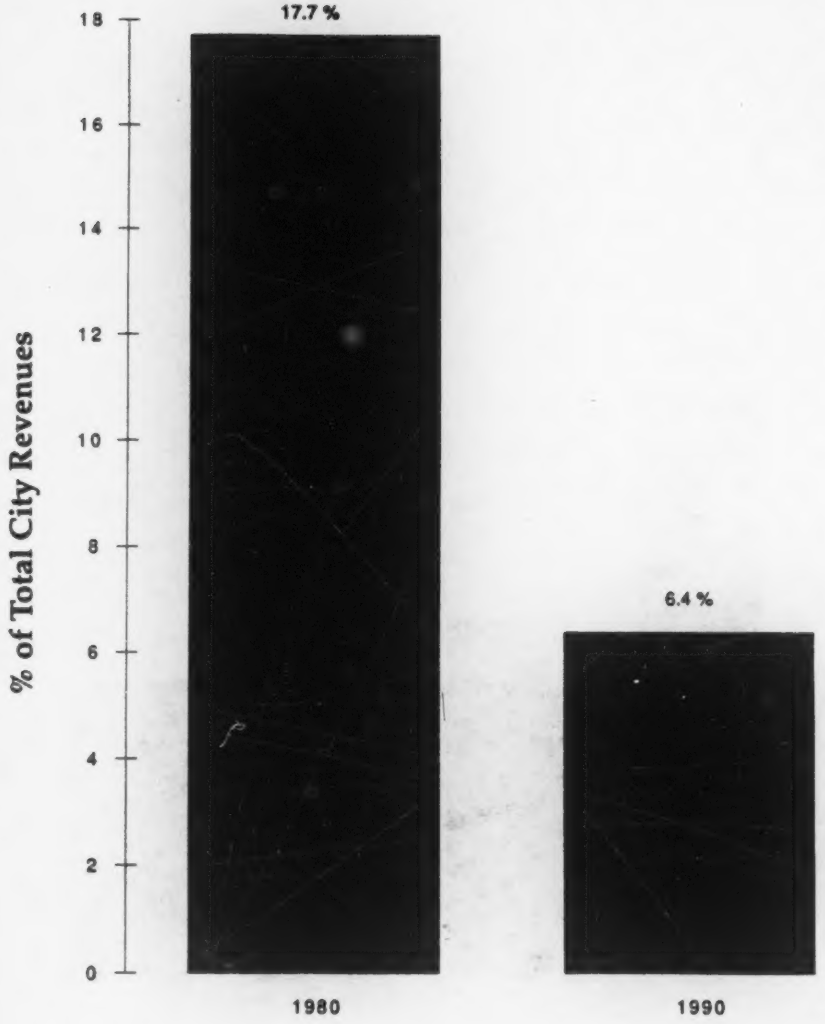
How have cities coped? They have raised taxes, cut services, and reduced city payrolls. Of those cities surveyed, 72 percent reported raising taxes, 42 percent reported that they both raised taxes and cut services, and 32 percent, nearly one-third, reported that they raised taxes and cut services and reduced city workers and raised revenues through other means such as user fees and excise taxes.

Mr. Chairman, on behalf of The United States Conference of Mayors, we ask that you take these facts into consideration when deliberating on the policy priorities which will make up the budget before your Committee. We must not let the cities die. And further, we must start to address the needs of cities experiencing cruel financial difficulties exacerbated by the current recession.

You tried valiantly to protect general revenue sharing from the chopping block several years ago. And you authored a Targeted Fiscal Assistance bill which would funnel federal funds directly to cities most in need. General Revenue Sharing was and Targeted Fiscal Assistance could be the most direct and cost-effective weapons in the Federal government's arsenal to help combat urban decay. The United States Conference of Mayors offers its help to you in bringing this to the attention of your colleagues seeing that we act before it is too late. We stand ready to work with you and your Committee on these problems and thank you once again for allowing us to appear before you today.

CHART I

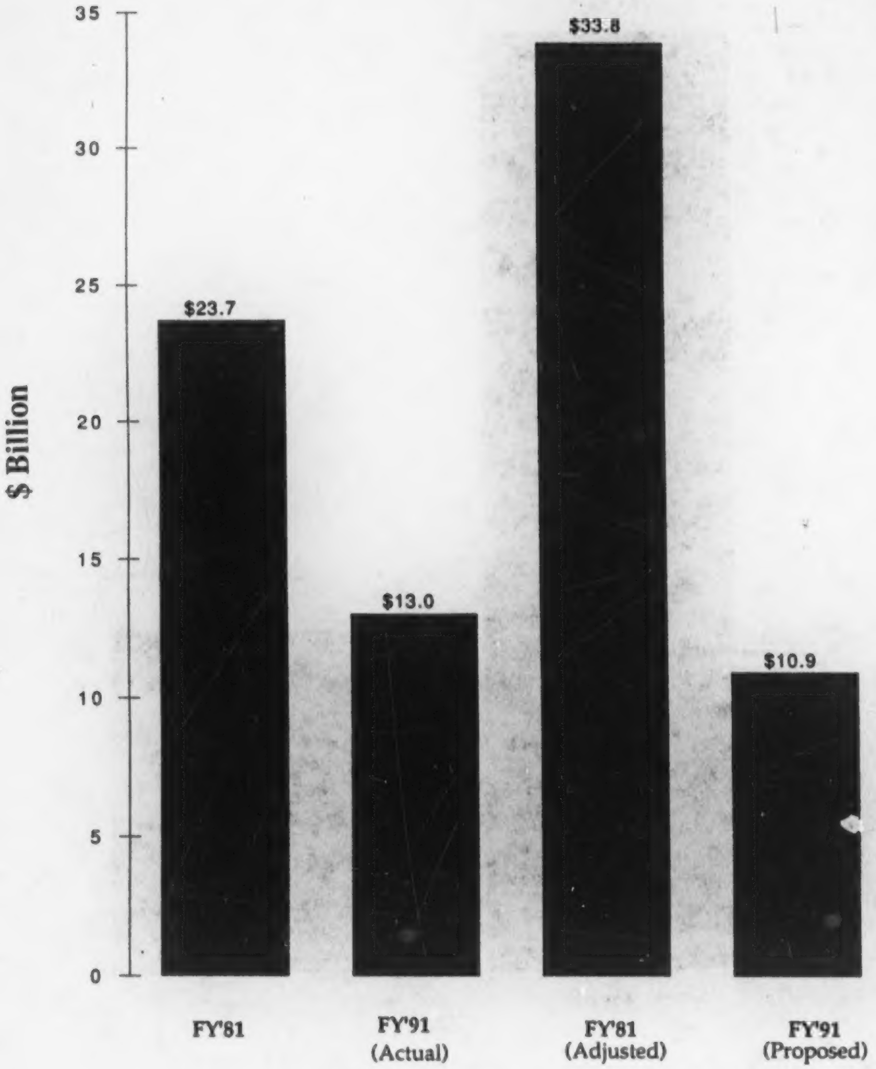
Federal Share of Total City Revenues



(Source: City Fiscal Conditions; U.S. Conference of Mayors, January 1991)

CHART II

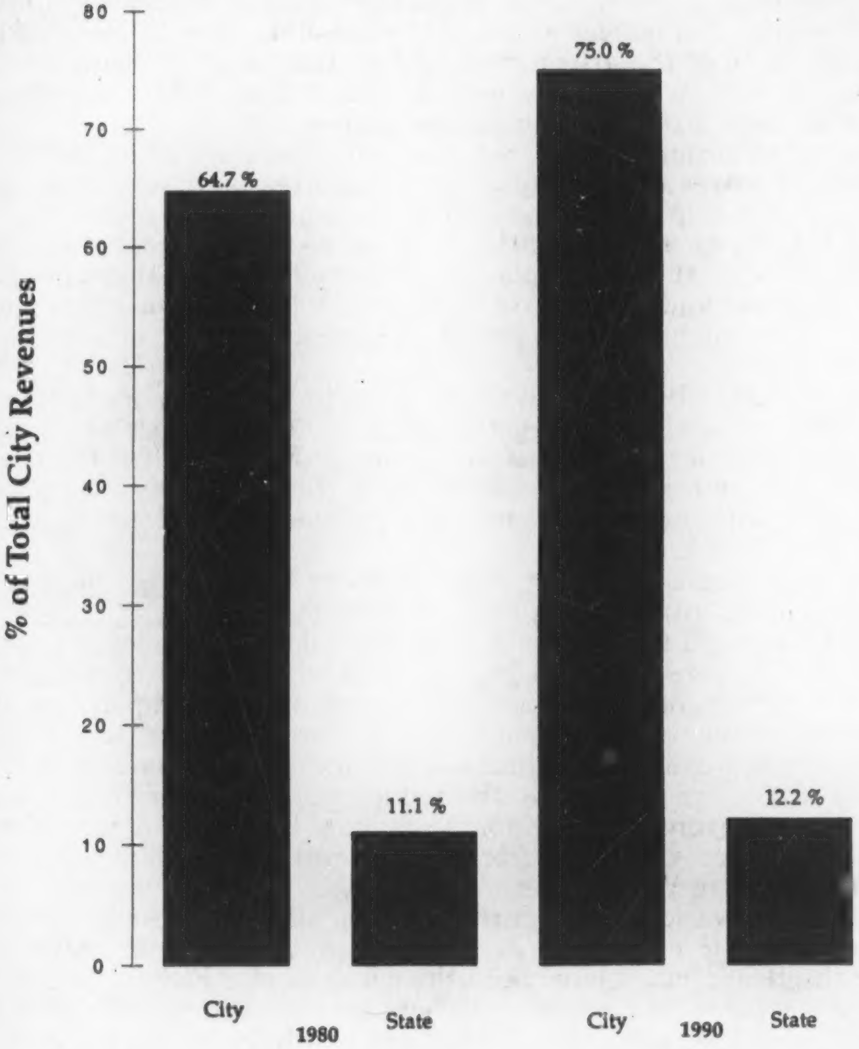
Key Urban Spending Program Reduction 1981 - 1991



(Source: City Fiscal Conditions; U.S. Conference of Mayors, January 1991)

CHART III

City and State Shares of City Budgets



(Source: City Fiscal Conditions; U.S. Conference of Mayors, January 1991)

Chairman **Sasser**. Mayor Dinkins.

STATEMENT OF HON. DAVID N. DINKINS, MAYOR, NEW YORK, NY

Mr. **Dinkins**. Thank you very much. My colleagues have yielded so much time, I am going to seize it.

I thank you, Chairman Sasser, for this opportunity. I come before you today with grave concerns about the future of America's cities. I believe that this budget would deal a crushing blow to New York City and to all of the urban areas which, despite our difficult fiscal times, are still struggling to provide decent health care, housing, education, and transportation for our people.

This latest formulation of new federalism is, once again, no federalism. It leaves cities to fend for themselves, and yet cities are the hubs that help make neighboring economic regions sound.

For thousands of years, cities have served as the crossroads of human activity, the marketplaces where we have exchanged goods, ideas, culture, and hope. It is no different in our own place and time: like a mighty engine, urban America pulls all of America into the future.

Nations have always depended on cities to yield up more in taxes than these same cities have gotten back in Federal goods and services. For example, economists have pointed out that when the first Federal income tax was imposed in 1913, New York State supplied the Nation with one-third of the tax yield—and most of that income came from New York City.

In recent years, however, our creativity in meeting the challenges of urban America has been severely tested.

The President's failure to offer any clear domestic policy is bitter medicine for State and local governments, which must continue to bear the burden of their draconian budget cuts and rapidly growing social problems of the past 10 years. For New York, which annually sends Washington billions of dollars more in taxes than we receive in Federal assistance, the reductions this budget offers are particularly severe. As Senator Moynihan has pointed out, New York receives only 77 cents from the Federal Government for each dollar we send to Washington.

Our entire Nation will feel the effect of these proposals, for the problems of our cities are, in fact, the problems of our country. Since the 1980's, cities have been the acrobats of a Federal circus—the "new federalism" left cities to fend for themselves, and, indeed, the suffering has been great. Slowly and painfully, we all witnessed the consequences of the Federal abandonment—consequences we had anticipated all along. Homelessness spread across the country; steelworkers lost their jobs with each flip of the calendar day; and the life expectancy of a young man in Harlem grew shorter than the life expectancy of his peer in Bangladesh.

Let me be clear: There is no doubt that our country should be strong—strong enough to protect our citizens and our principles—and as you point out, Mr. Chairman, as a Marine, I recognize the importance of this. But our true strength lies not in military might, but in our schools, our streets, and our homes. That strength is in serious jeopardy today, and we have a moral responsibility to restore and revitalize our country—and our cities—for our children.

If the Federal Government had maintained the level of aid it gave New York City 10 years ago, we would have received an additional $2.5 billion this year. That money might have saved low-birthweight babies; it might have built hospitals to care for hundreds more AIDS patients; it could have opened drug treatment slots to help thousands of junkies change from thieves to taxpayers. For our burdens are great: Since 1984, we have provided 26,806 units of housing but there are still thousands of homeless on our streets; currently our health department has recorded 29,067 adult AIDS cases; and last year there were 55,158 reported cases of child abuse or neglect.

Money is not the single answer to our problems, but, frankly, it is a necessary part of any solution. And some of that money must come from Washington, for only the National Government can command all of the nation's resources—and effective use of our resources will be required if we are to meet the challenges that lie ahead.

There are many aspects of the President's budget that deeply trouble me. The cuts in medicare and in assistance to mass transportation and public housing are of great concern. Compared to the conflict now being waged in the Persian Gulf, the Federal Government's war on drugs has been a travesty. A mere $3 billion in Federal commitment to drug treatment is simply not enough, and despite claims for continuing the intensity of this so-called war, Federal assistance to cities is not being increased. The administration's proposal to focus on infant mortality in 10 cities would be financed through cuts in other programs that serve the poor throughout the Nation.

But we are here today to discuss one particular proposal that affects a huge range of programs, including education, the environment, health, housing, and law enforcement: the new block grant program the President outlined in his State of the Union address and in his proposed budget, which would turn over the distribution of funds for existing Federal programs to State governments.

Although I applaud the concept of giving State and local governments greater flexibility in the use of Federal funds, I believe that the block grant proposal would have grave consequences for the people of New York City. Many of the programs that would be collapsed into the block grant system provide hundreds of millions of dollars to the city for vital services such as housing, daycare, heating assistance, and local drug law enforcement.

The questions this proposal raises are many. Will the block grant program give States and cities greater flexibility with the same amount of Federal funds, or will it result in reduced Federal funding over time? Will cities receive the same Federal funding that they have received in the past, or will States, hard pressed by deficit problems of their own, succumb to the temptation of using former city dollars to close their own deficits?

Let me tell you what I believe the answer to those questions are. Despite the administration's assurances that they will seek full funding for the next 5 years, I believe that when the appropriations bills are signed, we will not see the funding we need, and we will not even be close to what I call full funding. As I will discuss now, the President's budget actually calls for reducing some of the programs that would be included in the block grants. Is this what is meant by full funding?

I also believe that the States, facing enormous deficits themselves, need every dollar they can find. There is a serious risk that the temptation in State capitals will prove too great, and money that now funds much needed services in our cities will be spent on other State programs, supplanting State funds that are currently devoted to providing services.

May I give you an example. The current sewage treatment program will expire in 1994, despite the continuing need for billions of dollars to construct sewage treatment facilities. Even the U.S. Environmental Protection Agency estimates that an additional $83.5 billion are needed. Including sewage treatment in the block grant program, as the administration proposes, would thus be disastrous, for it would pit environmental protection against education, health, housing, and law enforcement in the State capitals, and almost certainly the environment would take a back seat to other programs, meaning further reductions there.

This block grant proposal is not a policy that would address the problems facing our country. It is a policy that would avoid those problems. There is no additional money, and there are no new initiatives in this proposal. It simply reshuffles what we already have. We certainly welcome flexibility and relief from Federal mandates, but this proposal is not about flexibility or mandate relief. It is about abandonment.

Enactment of the block grant proposal would be a clear statement that the Federal Government is unwilling to assume its role in confronting the Nation's problems and shaping the solutions. Once that role is abandoned, so too will be the promise of full funding, since support and commitment for individual programs may erode over time if they lose their separate identities in block grants. This will surely reduce, and may finally eliminate, Federal commitment to these programs.

Let me mention a few of the specific programs that would suffer under the budget proposal.

The administration would continue to direct the funds through the States for the Byrne Memorial State and Local Law Enforcement program, which distributed $490 million per year to help cities fight crime. Since its inception, the mayors of many of America's cities have urged direct Federal funding to cities under this program, because many of them have experienced long delays in getting money from State governments—an excellent example of the kind of problems that would arise by adding an extra layer of bureaucracy to the administration of block grants.

Cities are on the front lines in the war against drugs, and this program is the only Federal support that cities receive for local law enforcement efforts. We simply cannot risk losing any of that support, and we must have it on time.

The block grant proposal would include "selected" public and subsidized housing programs. The funds for the Section 8 programs which assist low-income tenants, the public housing programs for operating assistance and modernization, and the Section 202 elderly and disabled housing are currently routed directly to the cities. Why send this money to State capitals? Doing so would only increase administrative costs and move decisionmaking further from the people.

The city of New York received $255 million in public housing modernization funds and $324 million in public housing operating assistance in fiscal year 1990, and I am very proud of our accomplishments in housing: over the past 6 years, New York City has built or rehabilitated more permanent homes for the homeless than the Federal Government has provided all across this Nation. Yet we will have a long way to go, and if these funds are restricted, our efforts will be greatly limited.

Seventy percent of the Community Development Block Grant is already distributed to entitlement cities and 30 percent through States to the smaller cities. New York City received $183 million under this program in fiscal year 1991. The administration's proposal would reduce national funding for this program from the current level of $3.2 billion to $2.9 billion for each of the Federal fiscal years from 1992 through 1996. So much for the promise of full funding. This cut would result in a $20 million loss to New York City alone. In fact, the city's entire $183 million would be at risk since this money, which is now distributed directly to New York City, would be distributed through the States under the block grant proposal.

I remind this distinguished committee of the effect the new federalism has already had on housing. The word homeless could not be found in a dictionary just a decade ago, and now, after the Federal Government abdicated its longstanding role in building housing, the word defines a tragedy of such grand proportions it is difficult to find language appropriate to describe the pain of so many men, women, and children without homes.

With the elimination of general revenue sharing, Community Development Block Grant funds are the most flexible funds this Nation's cities receive. To take this program away from cities and give it to States in the name of flexibility is unnecessary at best, and deceptive at worst. Local governments are in a far better position to determine the needs of their residents, and local governments are the ones that could best use this flexibility.

The low-income home energy assistance program enabled the city of New York to provide $80 million in heating assistance last year alone. The administration's proposal would reduce this program nationally from $1.6 billion in fiscal year 1991 to $375 million by fiscal year 1996. Again, so much for full funding.

At a time when the number of persons eligible for this public assistance is growing right along with the price of heating oil, this proposed reduction is, indeed, a chilling one. It is highly ironic that low-income communities—which have sent a disproportionately high share of our sons and daughters to preserve a region rich with oil—will lose vital Government assistance to pay for the oil that heats their own homes.

The administration's proposal would also convert some entitlement programs to discretionary appropriations. Currently, the administrative funds for AFDC, medicaid and food stamps are distributed as part of those entitlement programs. To change this portion of these programs from an entitlement to an appropriated funding stream makes these funds much more vulnerable to the vagaries of yearly budget battles. These administrative funds are the only programs for which increases are proposed.

The social services block grant is now a capped entitlement under which New York City received $130 million in fiscal year 1990. These funds were used primarily to provide essential daycare services. The administration is proposing to fund this block grant at its current level of $2.8 billion until fiscal year 1996. Since no inflationary increase is provided, nor is there a provision for the expected increase in the city's social services caseload, actual services would shrink drastically and steadily over time. Once again, so much for full funding.

I believe that our Nation's cities would be greatly limited on all fronts by the administration's proposals. The fact is local governments are the most direct service providers and are best able to effect change and progress in our communities. Hindering our ability to provide such services will severely and immediately impact our communities and will only compound the bruising social service cuts that have characterized the past decade.

I urge you please reject the block grant proposal, and I ask you to work with our cities to fashion a Federal budget that recognizes the importance of urban America to all of America.

To that end, may I outline several proposals that I believe will greatly help our city's ability to serve all of its residents:

Direct funding for the Byrne Memorial Law Enforcement Program. There have been many delays for this funding at the State level, and the money should come directly to our city.

Full funding for the Head Start Program. I need not tell anyone here how effective Head Start has been in providing our children the help they need to get ahead. The urban summit convened in New York City last November of 35 mayors throughout the country urged that Head Start be made an entitlement program and removed from the vagaries of the appropriations process. But the current level of Head Start funding reaches less than half the eligible children. Full Federal Government funding for Head Start would result in an increase of more than $2 billion above what the President has requested, serving an additional 1.3 million children nationwide.

Increased funds for wastewater and water treatment. The difference between current Federal spending levels and the costs of Federal mandates to the State and local governments for water programs is an anticipated $18 billion in the State of New York, and roughly half of that shortfall will occur in New York City's water and wastewater treatment programs.

Full funding for the HOME Program, which provides flexible funds for new construction and substantial rehabilitation of housing. Already, cities are planning to receive these funds, but although the program was authorized at $2 billion, the administration only requested $1 billion.

This list of programs and proposals is but a sampling; in the weeks ahead, we will be back to you with further ideas and suggestions. We look forward to working with you—and with the Governors—to reduce the harmful impact of the President's budget proposals.

Chairman **Sasser**. Thank you very much, Mayor Dinkins.

[The prepared statement of Mayor Dinkins follows:]

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TEL: 566-5090 S 97-91

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TESTIMONY BY MAYOR DAVID N. DINKINS
CONCERNING FISCAL 1992 BUDGET PROPOSALS

Thank you for the opportunity to speak with you about the President's budget proposals.

I come before you today with grave concerns about the future of American cities. I believe that this budget would deal a crushing blow to New York City, and to all of the urban areas which, despite our difficult fiscal times, are still struggling to provide decent health care, housing, education, and transportation for our people.

This latest formulation of New Federalism is -- once again -- no federalism. It leaves cities to fend for themselves -- and yet cities are the hubs that help make neighboring economic regions sound.

For thousands of years, cities have served as the crossroads of human activity, the marketplaces where we have exchanged goods, ideas, culture, and hope. It is no different in our own place and time: like a mighty engine, urban America pulls all of America into the future.

Nations have always depended on cities to yield up more in taxes than these same cities have gotten back in federal goods and services. For example, economists have pointed out that when

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the first federal income tax was imposed in 1913, New York State supplied the nation with one-third of the tax yield -- and most of that income came from New York City.

In recent years, however, our creativity in meeting the challenges of urban American has been severely tested.

The President's failure to offer any clear domestic policy is bitter medicine for state and local governments, which must continue to bear the burden of the draconian budget cuts and rapidly growing social problems of the past ten years. For New York, which annually sends Washington billions of dollars more in taxes than we receive in federal assistance, the reductions this budget offers are particularly severe. As Senator Moynihan has pointed out, New York receives only seventy-seven cents from the federal government for each dollar we send to Washington.

Our entire nation will feel the effect of these proposals, for the problems of our cities are, in fact, the problems of our country. Since the 1980s, cities have been the acrobats of a federal circus -- the "new federalism" left cities to fend for themselves, and indeed, the suffering has been great. Slowly and painfully, we all witnessed the consequences of the federal abandonment -- consequences we had anticipated all along. Homelessness spread across the country; steelworkers lost their jobs with each flip of the calendar day; and the life expectancy for a young man in Harlem grew shorter than the life expectancy for his peer in Bangladesh.

Let me be clear: There is no doubt that our country should be strong -- strong enough to protect our citizens and our

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principles -- and as a Marine, I recognize the importance of this. But our true strength lies not in military might, but in our schools, our streets, and our homes. That strength is in serious jeopardy today -- and we have a moral responsibility to restore and revitalize our country -- and our cities -- for our children.

If the federal government had maintained the level of aid it gave New York City ten years ago, we would have received an additional two and one-half billion dollars this year. That money might have saved low-birth-weight babies; it might have built hospitals to care for hundreds more AIDS patients; it could have opened drug treatment slots to help thousands of junkies change from thieves to taxpayers. For our burdens are great: Since 1984, we have provided 26,806 units of housing but there are still thousands of homeless on our streets; currently our health department has recorded 29,067 adult AIDS cases; and last year there were 55,158 reported cases of child abuse or neglect.

Money is not the single answer to our problems, but frankly, it is a necessary part of any solution. And some of that money must come from Washington, for only the national government can command all of the nation's resources -- and effective use of our resources will be required if we are to meet the challenges that lie ahead.

There are many aspects of the President's budget that deeply trouble me. The cuts in Medicare and in assistance to mass transportion and public housing are of great concern. Compared to the conflict now being waged in the Persian Gulf, the federal

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government's "War on Drugs" has been a travesty. A three billion dollar federal commitment to drug treatment is simply not enough, and despite claims for continuing the intensity of this "war," federal assistance to cities is not being increased. The Administration's proposal to focus on infant mortality in ten cities would be financed through cuts in other programs that serve the poor throughout the nation.

But we are here today to discuss one particular proposal that affects a huge range of programs, including education, the environment, health, housing, and law enforcement: the new block grant program the President outlined in his State of the Union address and in his proposed budget, which would turn over the distribution of funds for existing federal programs to state governments.

Although I applaud the concept of giving state and local governments greater flexibility in the use of federal funds, I believe that the block grant proposal would have grave consequences for the people of New York City. Many of the programs that would be collapsed into the block grant system provide hundreds of millions of dollars to the City for vital services such as housing, day care, heating assistance, and local drug law enforcement.

The questions this proposal raises are many. Will the block grant program give states and cities greater flexibility with the same amount of federal funds, or will it result in reduced federal funding over time? Will cities receive the same federal funding that they have received in the past or will states, hard

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pressed by deficit problems of their own, succumb to the temptation of using former city dollars to close their own deficits?

Let me tell you what I believe the answers to those questions are. Despite the Administration's assurances that they will seek full funding for the next five years, I believe that when the appropriations bills are signed, we will not see the funding we need -- and we will not even be close to what I call full funding. As I will discuss in a few minutes, the President's budget actually calls for reducing some of the programs that would be included in the block grants. Is this what is meant by "full funding"?

I also believe that the states, facing enormous deficits themselves, need every dollar they can find. There is a serious risk that the temptation in state capitals will prove too great -- and money that now funds much-needed services in our cities will be spent on other state programs, supplanting state funds that are currently devoted to providing services.

Let me give you an example. The current sewage treatment program will expire in 1994, despite the continuing need for billions of dollars to construct sewage treatment facilities. Even the United States Environmental Protection Agency estimates that an additional $83.5 billion is needed. Including sewage treatment in the block grant program, as the Administration proposes, would thus be disastrous, for it would pit environmental protection against education, health, housing, and law enforcement in the state capitals, and almost certainly the

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environment would take a back seat to other programs -- meaning further reductions.

This block grant proposal is not a policy that would address the problems facing our country: it is a policy that would avoid those problems. There is no additional money, and there are no new initiatives in this proposal -- it simply reshuffles what we already have. We certainly welcome flexibility, and relief from federal mandates, but this proposal is not about flexibility or mandate relief -- it is about abandonment.

Enactment of the block grant proposal would be a clear statement that the federal government is unwilling to assume its role in confronting the nation's problems and shaping the solutions. Once that role is abandoned, so too will be the promise of "full funding," since support and commitment for individual programs may erode over time if they lose their separate identities in block grants. This will surely reduce, and may finally eliminate, federal commitment to these programs.

Let me mention a few of the specific programs that would suffer under the budget proposal.

The Administration would continue to direct the funds through the states for the Byrne Memorial State and Local Law Enforcement program, which distributes $490 million per year to help cities fight crime. Since its inception, the mayors of many of America's cities have urged direct federal funding to cities under this program, because many of them have experienced long delays in getting money from state governments -- an excellent example of the kind of problems that would arise by adding an

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extra layer of bureaucracy to the administration of block grants.

Cities are on the front lines in the war against drugs, and this program is the only federal support that cities receive for local law enforcement efforts. We simply cannot risk losing any of that support -- and we must have it on time.

The block grant proposal would include "selected" public and subsidized housing programs. The funds for the Section Eight programs which assist low-income tenants, the public housing programs for operating assistance and modernization, and the Section 202 elderly and disabled housing are currently routed directly to the cities. Why send this money to state capitals? Doing so would only increase administrative costs and move decision-making further from the people.

The City of New York received $255 million in Public Housing Modernization funds and $324 million in public housing operating assistance in fiscal year 1990, and I am very proud of our accomplishments in housing: over the past six years, New York City has built or rehabilitated more permanent homes for the homeless than the federal government has provided all across the nation. Yet we still have a long way to go -- and if these funds are restricted, our efforts will be greatly limited.

Seventy percent of the Community Development Block Grant is already distributed to entitlement cities and 30 percent through states to the smaller cities. New York City received $183 million under this program in fiscal year 1991. The Administration's proposal would reduce national funding for this program from the current level of $3.2 billion to $2.9 billion for each of the federal fiscal years from 1992 through 1996. So much for the promise of "full funding" -- this cut would result in a $20 million loss to New York City alone. In fact, the City's entire $183 million would be at risk since this money, which is now distributed directly to New York City, would be distributed through the states under the block grant proposal.

I will remind this distinguished committee of the effect the New Federalism has already had on housing. The word "homeless" could not even be found in a dictionary just a decade ago, and now, after the Federal government abdicated its longstanding role in building housing, the word defines a tragedy of such grand proportions it is difficult to find language appropriate to describe the pain of so many men, women, and children without homes.

With the elimination of General Revenue Sharing, Community Development Block Grant funds are the most flexible funds this nation's cities receive. To take this program away from cities and give it to states in the name of flexibility is unnecessary at best, deceptive at worst. Local governments are in a far better position to determine the needs of their residents -- and local governments are the ones that could best use this flexibility.

The Low Income Home Energy Assistance Program enabled the City of New York to provide $80 million in heating assistance last year alone. The Administration's proposal would reduce this program nationally from $1.6 billion in fiscal year 1991 to $375

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million by fiscal year 1996. Again -- so much for full funding.

At a time when the number of persons eligible for this public assistance is growing right along with the price of heating oil, this proposed reduction is indeed a chilling one. It is highly ironic that low-income communities -- which have sent a disproportionately high share of our sons and daughters to preserve a region rich with oil -- will lose vital government assistance to pay for the oil that heats their own homes.

The Administration's proposal would also convert some entitlement programs to discretionary appropriations. Currently, the administrative funds for AFDC, Medicaid and Food Stamps are distributed as part of those entitlement programs. To change this portion of these programs from an entitlement to an appropriated funding stream makes these funds much more vulnerable to the vagaries of yearly budget battles. These administrative funds are the only programs for which increases are proposed.

The Social Services Block Grant is now a capped entitlement under which New York City received $130 million in fiscal year 1990. These funds were used primarily to provide essential day care services. The Administration is proposing to fund this block grant at its current level of $2.8 billion until fiscal year 1996. Since no inflationary increase is provided, nor is there a provision for the expected increase in the City's social services caseload, actual services would shrink drastically and steadily over time. Once again, so much for full funding.

I believe that our nation's cities would be greatly limited

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on all fronts by the Administration's proposals. The fact is, local governments are the most direct service providers, and are best able to effect change and progress in our communities. Hindering our ability to provide such services will severely and immediately impact our communities, and will only compound the bruising social service cuts that have characterized the past decade.

I urge you to reject the block grant proposal, and I ask you to work with our cities to fashion a federal budget that recognizes the importance of urban America to all of America.

To that end, may I outline several proposals that, I believe, will greatly help our city's ability to serve all of its residents.

- Direct funding for the Byrne Memorial Law Enforcement Program. There have been many delays for this funding at the state level and the money should come directly to our city.

- Full funding for the Head Start Program. I need not tell anyone here how effective Head Start has been in providing our children the help they need to get ahead. The urban summit convened in our city last November of thirty-five mayors throughout the country urged that Head Start be made an entitlement program and removed from the vagaries of the appropriations process. But, the current level of Head Start funding reaches less than half the eligible children. Full federal government funding for Head Start would result in an increase of more than two billion dollars above what the president has requested, serving an additional 1.3 million children nationwide.

- Increased funds for wastewater and water treatment. The difference between current federal spending levels and the costs of federal mandates to the state and local governments for water programs is an anticipated 18 billion dollars in the state of New York -- and roughly half of that shortfall will occur in New York City's water and wastewater treatment programs.

- Full funding for the HOME program, which provides flexible funds for new construction and substantial rehabilitation of housing. Already, cities are planning to receive these funds, but although the program was authorized at 2 billion dollars, the Administration only requested 1 billion.

This list of programs and proposals is only a sampling; in the weeks ahead, we will be back to you with further ideas and suggestions. We look forward to working with you to reduce the harmful impact of the President's budget proposals.

Thank you.

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Chairman **Sasser**. It is clear to this committee that the mayors are not ambivalent about the President's block grant proposal. I might say that you make an eloquent case, gentlemen, and it has been my view for some time that you three gentlemen and your colleagues around the country have the toughest job in Government, because you are truly down where the rubber meets the road. I might say that you have my admiration, respect, and also my sympathy for the problems that you encounter.

Mr. **Flynn**. Send me your money, Senator. That would be really helpful. [Laughter.]

Chairman **Sasser**. Well, Mayor Flynn, I might say from a personal level that I have always been very enthusiastic about funding for programs that are administered by the mayors and programs that deal with problems in the urban areas and in the cities. But, unfortunately, we find ourselves in a very strapped fiscal situation here at the Federal level. In my judgment, and as I think one of you gentlemen indicated earlier—perhaps you indicated, Mayor Flynn—this is a problem of our own making here at the Federal level. But we have generated this problem, and we find ourselves locked into it.

Let me ask one question, and then I want to turn to my colleagues, because the hour is late and I know they are very anxious to propound their questions to this distinguished panel.

Mayor Dinkins, for the record, could you tell us about the fiscal shortfall that you face in your budget this year? And what help do you see forthcoming from the State government in Albany? And as a corollary to that, could you tell us how the 1992 Federal budget as proposed by the administration would impact on your city and your problem?

Mr. **Dinkins**. Yes. We are on a fiscal year that commences in July, July 1st. The last budget, the budget year in which we now are, 1991, which commenced July 1, 1990, we filled a $1.8 billion gap. By November, we had a $388 million further shortfall, still later an additional $500 million. We are looking at at least $600 million more just to get out of the current fiscal year, caused in great part by a shortfall from Albany, from our State capital. It is the $600 million that the Governor says is 418. We say it is 600.

The upcoming budget that we will adopt in June, for which we have already issued a preliminary budget on January 16th, shows a $2.1 billion shortfall, which we anticipate will grow. Indeed, the New York City comptroller just yesterday issued a report suggesting that our estimate is much too short. She thinks that it could be as much as a billion more. She could well be right that it is more. I doubt that it is that much more.

We expect not an awful lot of help from Albany for the reason that they are on a fiscal year that commences in April, and they just rolled over $900 million from one budget year into the next. That gives them a gap of $6 billion, at least, in the next year. Our State comptroller today will issue a report on what he thinks that is. I haven't yet gotten the word.

So we don't anticipate a lot of help from Albany, although we have not given up on that. Among other things, we are seeking relief in what we have referred to as administrative mandated areas, some things that they mandate that if they were to give us relief there would save us money. I guess a classic example is aid to special education. Special ed, the formula, deals largely with registration, whereas attendance can be below that. So it is possible to make an appropriate adjustment and not be harmful to the ratio.

Moreover, our State education formula is unfair to the city of New York—which, I might add, is acknowledged by everybody, including our Governor.

Chairman **Sasser**. So what you are telling us, Mayor, is that you are not expecting a lot of aid from State government to deal with the problem.

Mr. **Dinkins**. No, I am not.

Chairman **Sasser**. Let me just ask you this: Have you had an opportunity to analyze how the Administration's 1992 fiscal year budget would affect your problems in New York City?

Mr. **Dinkins**. Yes, we have had at least a preliminary look at it. Medicare would cost us about $18 million; health care, would be up $1.6 million; community service block grants, $16 million; heat, about $30 million; and, Lord knows, that could go up depending on how things go in the price of oil.

Chairman **Sasser**. That is the low-income energy assistance program we are talking about?

Mr. **Dinkins**. Right. Transportation is an area in which we get particularly hard hit, $100 million, with UMTA added in about $151 million. The estimated total is about a $300 million loss from the Federal Government.

Chairman **Sasser**. So it would be fair to say that looking at the 1992 Federal budget, that is bad news for New York City.

Mr. **Dinkins**. Right. It exacerbates what we——

Chairman **Sasser**. It exacerbates an already pre-existing, very serious problem, and you don't anticipate much relief from State government. So you are being told, it appears to me, that it is your problem, paddle your own canoe. Is that accurate?

Mr. **Dinkins**. Well, that is true, but if the State is listening, we want the State to understand that we are going to fight very hard to see that the State gives us more assistance than they presently intend.

Chairman **Sasser**. Thank you. I will turn now to Senator Brown.

Senator **Brown**. I would like to yield to the gentleman from Missouri.

Chairman **Sasser**. I would be pleased to recognize the gentleman from Missouri.

Senator **Bond**. Mr. Chairman, I must apologize. Because of unpredictable schedules today, I have had to arrive late. But I have a very great interest in this program, and I thank my colleague from Colorado for allowing me to go forward.

Gentlemen, I have read in your statements things like "a hoax," "cruel hoax on the needy," "a raw deal," "fend for yourself federalism," "bankrupt political strategy." But what I am really hearing you say is you want more money. You are coming here, and you are saying, "We want more money."

Unfortunately, the ability to give more money has been greatly circumscribed by the budget deal signed between Congress and the President last fall. There is not going to be significant new dollars. A quick calculation by staff on the items which my good friend

Mayor Dinkins called for full funding would add about $22 billion in fiscal year 1992 alone. And that certainly isn't realistic.

I would say that Mayor Althaus has claimed that cities are doing everything possible but if you look at his statisticts, when you look at the cities that have raised taxes, cut services, reduced city workers and raised user fees, only one-third of them in financial difficultly have done that.

Now, there are tough times, economically and fiscally, for cities, for States, and for the Federal Government. I happened to have served as Governor when revenue sharing was cut off. The Federal Government continued the burdens. They continued the mandates. And my colleagues and friends like Governor Ashcroft tells me that of every new dollar coming into State governments for fiscal year 1992, anywhere from 80 to 90 percent of it is controlled by Federal mandates. So Federal mandates have played a real part of the problem—the Federal Government telling lower echelons of government how they must handle their responsibilities. That necessarily cuts back on the ability of State legislators and Governors to respond to their needs.

Now, I am sorry to hear that apparently there have been such problems with Governor Cuomo in New York and Governor Dukakis in Massachusetts that you are not able to trust Governors to deal with the problems. But I can tell you that Governors and State legislators are very much concerned about many of the same problems you are concerned about.

All of these arguments about more money you need do not seem to me to address the question of why it is a bad idea if the Federal Government were to say to States we are going to turn over the administrative funds for the State welfare fund and stop telling you every form to fill out, every piece of red tape to untangle and retie. We estimated a few years ago that we could improve by 50 percent the provision of services, if they would just take the constraints off and let the administration go forward at the State level.

I know that the Governors have already said they do not want to interfere with funds now going to the cities, such as CDBG. And I would agree that where the funds are actually going to the cities, the fewer layers of management that you have, the fewer impediments that you have from above, the better you are going to be able to spend it.

But, tell me, on something like a State administrative program, for what reason other than spite do you say that the Federal Government should not cut the strings on the money they turn over to the States to run their welfare bureaucracy? I would ask any of the three of you who care to comment on it.

Mr. Althaus. It seems to me, Senator, that one of the problems of the block grant approach is that it creates a fungible pot of money, and the priorities which we have nationally identified for these housing and drug and low-income assistance programs—you turn it over to the States as a fungible block grant; they can rewrite those priorities in ways that are of concern to us as mayors of cities, because even if those aren't funds we are directly administering, those are our citizens who are most in need.

Senator BOND. But aren't your State legislators and Governors concerned about how the funds are used in Pennsylvania? Can they not make a better judgment of what the needs are in Pennsylvania?

Mr. ALTHAUS. They might not make a judgment that recognizes the special needs of the people of cities who don't vote in as large numbers. Our legislature in Pennsylvania, at least, is dominated by suburban and rural interests. They will not look after, as faithfully as we or the Federal Government would, the people of Philadelphia, Pittsburgh or York or any of our cities. And it is for that reason historically that some of these things became national priorities.

You know, you can move to certain parts of this country and get away from poor folk. They just aren't around. But they are still somewhere, and we——

Senator BOND. You haven't told me why to take the red tape off of the administration of the programs that the State government has to provide is going to somehow hurt the cities if the States can get a whole load of red tape off——

Mr. FLYNN. About 3 weeks ago, Senator, I sat down in an auditorium where people from various organizations, groups throughout the neighborhoods of the city of Boston, came in for literally a daylong process and they identified the key needs and concerns within that particular community. One community was reaching out to identify at-risk women who are pregnant to get them connected to a neighborhood health center, to identify the problems of nutrition and prenatal care before it became a serious health problem to the young expectant mother. That is a program that is very, very effective. That is a program that the people in the minority community identified to me, sitting there listening to them, that was a very, very important issue and a very important concern.

Do they have the capacity of doing that up at the State legislature and the Governor? That is a very simple question for me to answer. Absolutely not. They don't have the capacity of doing that.

The needs in each of these communities are such that we are the repository of many poor and needy people, because poor and needy people don't go to the suburbs. They are here in our cities. They are in New York. They are in Philadelphia, Chicago, Boston. So we know the needs of these poor people. Why would you want to have a new administration now from the Federal Government moved over to the State government to administer this particular program that is working very successfully now? Why would you want to have a State bureaucracy?

Senator BOND. Mr. Chairman, I know the time is up. I am sure that others may want to comment, but let me just say that precisely those same concerns have been identified in Missouri as high priority needs, and we are not talking about not serving pregnant women who are in great need. What we are saying is that the Federal administrative red tape that now controls State government is inappropriate. I am sorry that Massachusetts is so unresponsive——

Senator LAUTENBERG. Mr. Chairman, please, if you don't mind——

Mr. FLYNN. You are missing the point——

Senator **Lautenberg**. I don't mind losing my time, but I don't want to lose it to a political discussion. When the red light is on, it doesn't mean go faster. It means stop.

Chairman **Sasser**. Gentlemen, let's try to keep our regular order here. Your time has expired, Senator Bond. We will recognize Senator Lautenberg at this juncture.

Senator **Lautenberg**. Thank you very much, Mr. Chairman.

Being a resident of the Northeast and seeing the communities that are represented here by these distinguished mayors connects me, I think, just a little bit more directly perhaps with your needs and with the problems as you see them. Very frankly, I share your view—may I say unequivocal view—that this proposed program is not one that is going to benefit the constituents that you serve, a significant portion of the population of this country.

As I look at the product delivered to us by the U.S. Conference of Mayors—and it includes Kansas City, MO—50 cities representing different population mixes, et cetera, apparently the needs have gone down in your communities in the last 10 years because I see the Federal share of the budget has gone down significantly. So I guess those correspond. I see the States struggling to meet some of the shortfalls, and at the same time I notice that city after city has taxed its citizens to the maximum allowed by law.

Now, I don't know why you managers of the cities can't manage better. What is wrong with you? I mean, these Federal mandates are shoving these programs down your throat. Why do you have to get those people off the streets and throw them into houses? They seem to be comfortable where they are. I don't understand why you have to clean up that water. It goes down the river and goes some place else, or to try to stop air pollution or to fight the drug war. I mean, those junkies want to be out there. I don't understand why this bureaucracy has got you so entangled in the problems of your community that you don't see the greater good being served by the reduction in the budget. Perhaps we can spend more on the military. We have to spend it now, and all of us are supporting it. But I think to suggest that the bureaucracy is the problem for your cities and that the fact is that your people are too poor, raise their level of income, for crying out loud, and then we won't have to deal with these problems. What's the matter with you?

The fact of the matter is that what this is going to do, in my view, is provide a nasty competitive environment from State to State and State to city, because if the wrong administration is in the Capitol City. Unfortunately, my distinguished colleague from Missouri only remembered Governors Dukakis and another Democratic Governor. The fact is that the Governor of California I think many moments wishes he were back here and not having to solve the problems that he has come across.

When I look at Kansas City, MO and I see that the Federal Government has declined in its share of the budget by 55 percent, the State government has declined in its share of the management or the help to Kansas City by 10 percent, and the city has raised its contribution to the budget by 14 percent. This is in a period of 10 years, when we all, of course, know that the needs are substantial.

Do you share my view of the fact that competitive problems could develop between areas?

Mayor Dinkins and I are friends, in addition to colleagues in government, and we are at times forced into a competitive position between the State of New Jersey and the city of New York, but we try to fight against that, because what is good for the region is good for both of our communities.

But do you not see a distinct possibility that decisions made in Albany or decisions even made in Trenton, in my State capital, could directly affect the relationship between the communities in my State and in the city of New York and vice versa, where shifting welfare programs might drive people very quickly across the river, one way or another, or in the education programs?

Mayor DINKINS. I think you are absolutely right. Might I just seize this opportunity also to say that I do not think the problem is a lack of desire on the part of Governors Dukakis or Cuomo, as was suggested a moment ago. A lot of it has to do with inability, because the Federal Government is just not sending the money they used to send, whether it be directly to cities or to the States or both, and that ought to be recognized.

With respect to the administration of welfare, that goes not just to the States, but it comes to New York City, as well. If the problem is as was suggested, a matter of red tape, why not get rid of the red tape? We do not have to undo the whole shebang. If the Federal Government or the States have got some problems, change those, instead of taking from us the help we need.

I was so pleased to hear the comments that were made with respect to the Federal Government's ability to find money, half a trillion dollars for savings and loans, and we spend now between $500 million and $1 billion a day in the Gulf and we all support those who are there.

I was privileged to go to Israel to visit our troops at Patriot sites, and I am fully supportive of them, but I cannot for the life of me understand why we do not appreciate in this country that the welfare of our urban centers, which means also the suburban areas, as well, is national defense and in the national interest.

Senator LAUTENBERG. Mr. Chairman, I close as has now become the custom of the Budget Committee, with a statement that takes us beyond the time——

Chairman SASSER. Well, make it quick, because that red light is on. [Laughter.]

Senator LAUTENBERG. It is going to be very quick. I would tell you that I sit around here and I hear people railing against the Federal bureaucracy and the Federal participation, but when it comes to rail lines going through their cities or serving their communities or central air service, as chairman of Transportation, God, I hear the pleas and no longer are they talking about the bureaucracy. They are saying, please, we need the help, we cannot do it by ourselves.

Thank you very much, Mr. Chairman.

Chairman SASSER. Thank you, Senator Lautenberg.

Senator Brown?

Senator BROWN. Thank you, Mr. Chairman.

If I might just comment, I had no idea that both you and Senator Symms were both Marines, nor did I realize that Senator Symms was an ex-Marine. I thought he might still be active duty.

Chairman **Sasser**. Well, that is debatable, he still may be. [Laughter.]

Senator **Brown**. I thought I had heard you suggest that he go to the Persian Gulf, I was not sure what that meant. [Laughter.]

Mayor Dinkins, if you would permit me, I would like to make an observation. You recalled an argument that I have heard often about New York. All Americans feel a great deal of pride in New York, and specifically New York City. Not just because New York is a market for our products from across the Nation, but for the wonderful achievements, culturally and economically, that city has achieved.

My impression is that one of the reasons New York State pays more than it gets back has something to do with the fact that we tax people with higher incomes more than those with lower incomes. New York has a significantly higher income per capita than does Tennessee, where our chairman is from, or many States around the Nation. Federal spending often goes to those who need it most. Those who have the lowest incomes. The phenomena of New York paying in more than it gets back may well be a function of taxing the wealthy and giving to the poor, which is a concept that has generally been supported strongly by your delegation, both in the Senate and the House. The allocation has not been a function of people's hostile attitude towards New York.

I would appreciate your comments or the other mayors' comments on how you would view a revenue sharing proposal or a block grant proposal that allocates the money directly to the cities, rather than through the State, so that you can be assured that you will not receive a smaller share.

Mayor **Dinkins**. If I might respond first to the notion that the reason that we get taxed more and get less back is simply because we just have more money, it would seem that fairness would dictate that such a formula would also include the fact that we have more AIDS cases than the next five jurisdictions combined, and that we have more homelessness than elsewhere, and yet, as I have pointed out in my prepared text, we have provided more housing in New York City, new housing and rehabilitated housing, than the Federal Government has done all across the Nation.

So, if one factors in these things that we do "for ourselves," so to speak, and the fact that we have these problems along with our wealth, that it is not unfair to ask for a little more help in these areas.

The Federal Government has slashed its housing budget from I think somewhere around $31 billion to something under $7 billion, and we in the city and in our State have tried to make up that difference. So, I do not think it is unfair to point these out.

I might add that I do not suggest for a moment that the reason that New York does less well than I think it ought to do is borne of any animosity. I think it is borne of a misunderstanding of what is fair.

Senator **Brown**. I appreciate that and those are valid points. I just would hope when you think of those figures, that you would not think it is because your delegation has not worked hard.

Mayor **Dinkins**. I know that we have one of the best delegations in the Congress.

Senator **Brown**. My impression also is that there is a very strong element in those figures that reflect the fact that New York has higher income per capita than many States.

Mayor **Dinkins**. I say again that we also have more problems than many States and those problems need to be addressed, and it is not unfair to request that they be addressed with Federal funds. We just want a fair share, a level playing field.

Mayor **Flynn**. I think Mayor Dinkins has really handled the question very well, Senator, but I think the very crux of the problem that you have raised, is that the cities are where the largest population of immigrants and the largest population of poor people are located.

We have two-thirds of all shelter beds in the Commonwealth of Massachusetts in the city of Boston. We happen to make it a policy that no person will sleep out in the street or in a park or in a doorway, that they will be provided a warm bed, transportation to a shelter, given medical care and hot food. That is a guarantee that we try to make for every homeless person.

Obviously, there is no other community in the entire Commonwealth that can do that, therefore, we attract people from not only the Commonwealth of Massachusetts, but from across the country, that come to the city of Boston, the capital, to get that kind of service and get that kind of attention.

We opened up the very first pediatric AIDS center in the United States of America. We have facilities for AIDS that suburban communities would never in 100 years accept in their particular communities, or for the homeless or for drug addicts, and that is the reality. That is the fact.

So, we are saying here, I guess, in summary, that we are seeing the steady cut at the Federal level, Senator, over the last 10 years, we are now seeing the State government, because of their financial problems, particularly in the Northeast—and this is not a question about Governor Cuomo or Governor Dukakis—I remind the Senator that Governor Dukakis is not the Governor of Massachusetts any more, that we have a Republican Governor and he is recommending a 10-percent cut in local aid, not to make this a partisan issue—but by the same token, that is where we are and we cannot take another hit by the Federal Government.

Chairman **Sasser**. Thank you very much, Senator Brown.

Senator Simon?

Senator **Simon**. I shall be very brief, because I am already late for my next appointment.

First, I think it is extremely significant that you are here. I was reflecting on this, Mr. Chairman and Senator Brown, why we have so many former Governors in the U.S. Senate, including several former Governors on this committee.

We have no former big city mayors on this committee. We have only one that I can think of in the whole U.S. Senate, Senator Garn, who was Mayor of Salt Lake City at one point.

Mayor **Althaus**. There are a couple of us.

Senator **Simon**. Pardon?

Mayor **Althaus**. Dick Lugar from Indianapolis.

Senator **Simon**. I am sorry.

Mayor **Althaus**. Senator Domenici from Albuquerque.

Senator **Simon**. I am sorry.

Mayor **Althaus**. We keep track of where we go. [Laughter.]

Senator **Simon**. I just thought maybe it had something to do with your popularity after you became a big city mayor.

Mayor **Althaus**. Henry Meyer once explained, he was Mayor of Milwaukee for 20-some years, and they said why do you not run for higher office, and he said there is no higher office. [Laughter.]

Senator **Simon**. I think the point that you have made is extremely important. Mayor Dinkins, for example, in talking about special education, I helped to create that program, 94–142. We are supposed to be at 40 percent funding now. We are at 8 or 9 percent level of funding, and you have to pick up the tab, and, clearly, that his unfair.

Mayor Dinkins, you said something here that I think is extremely important, not just about block grants, but our whole budget. You said this block grant proposal is not a policy that would address the problems facing our country, it is a policy that would avoid those problems, there is no additional money and there are no new initiatives in this proposal, it simply reshuffles what we already have.

Frankly, that is what we are doing in this budget much too a great an extent. We are doing a little reshuffling, a little tinkering. We are not asking what are the great needs of our country and how do we meet those needs, and that is what we ought to be doing, and that is really the message that you are giving us here today, and I applaud you for that and I am very grateful for your testimony.

Thank you, Mr. Chairman.

Chairman **Sasser**. Thank you very much, Senator Simon.

Gentlemen, the hour is late and you have been here with us now for almost 3 hours. I want to thank this distinguished panel of mayors for your very fine testimony this morning and to say to you that I think you make a very compelling case for your point of view.

Thank you very much.

Mayor **Althaus**. Thank you, Senator.

Mayor **Dinkins**. Thank you.

Mayor **Flynn**. Thank you.

Chairman **Sasser**. Ladies and gentlemen, we are fortunate to have as our final witness today Mr. William Diefenderfer, the Deputy Director of the Office of Management and Budget. Mr. Diefenderfer is no stranger to this committee. He spent considerable time here in the Senate working on major legislation with the Senate Finance Committee.

Bill, I notice that I am the only one left to welcome you here this morning, so we are pleased to welcome you back with the administration's view on the block grant proposal.

STATEMENT OF WILLIAM M. DIEFENDERFER III, DEPUTY DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. **Diefenderfer**. Thank you, Mr. Chairman.

The quality of the welcoming committee could not be exceeded just by the fact that it is only you.

Chairman **Sasser**. Thank you.

Mr. **Diefenderfer**. I will forgo the reading of my prepared testimony.

Chairman **Sasser**. We will include it in the record, as if read.[1]

Mr. **Diefenderfer**. I appreciate that, Mr. Chairman.

I have about five quick points to make, and then would be glad to respond to any questions, either here or——

Chairman **Sasser**. Could we have order, please? Mr. Diefenderfer deserves to be heard.

You may proceed, Mr. Diefenderfer.

Mr. **Diefenderfer**. Thank you, sir.

The quick points that I would make are first, the administration would welcome the local government officials to the table in the design of block grant program. I think it was a desire expressed by this committee or at least some members of the committee that this be the case.

Second, the governors have indicated that, in design of the program, they would recommend only dollars presently flowing directly to the States be included in the block grant. That is fine with us.

Third, I would also note that it seems that mandates flow downhill. The Federal Government has been severely restricting the activity of States, as mentioned by Governor Ashcroft, through its mandates. We now hear from the local governments that the State legislatures are mandating the activities of local governments also. Maybe it is time to call a halt to all of this, and perhaps the block grant proposal is the first shot in that endeavor.

Fourth, I heard it mentioned here that there might be competition between local, State and Federal politicians for funds as this program moved forward. I can only paraphrase Bogart's Casablanca, "Competition in politics—shocking."

There will be difficult choices that have to be made at State capitals over time, I am sure, but that is what government is all about, as I think John Kennedy once noted.

It was also mentioned here that this budget is a reshuffling of existing resources. In fact, I think that is not a bad characterization. Of course, you, Mr. Chairman, were and are very involved in the budget process that produces that budget deal. We have a budget due to that agreement that is growing at about 2.6 percent in outlays over 1991. So it is a matter of choosing priorities.

Finally, I do not think the statement that we are not addressing the great needs of the country is necessarily true. One of the great needs of the country is for the Federal budget to be brought under control and the Federal Government to get itself in order in a fiscal way. I think that the budget agreement of last year went a long way towards that.

Those are the observations I offer in lieu of reading my written statement. As I say, I would be glad to respond to any questions, either orally or in writing, that the committee may wish to put forward.

Chairman **Sasser**. Thank you very much, Mr. Diefenderfer.

[The prepared statement of Mr. Diefenderfer follows:]

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[1] See p. 89.

TESTIMONY
PRESENTED BEFORE
THE SENATE BUDGET COMMITTEE

BY
WILLIAM M. DIEFENDERFER, III
DEPUTY DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
FEBRUARY 20, 1991

Mr. Chairman, Members of the Committee, it is a pleasure to be with you today to outline the general concept and philosophy underlying the President's initiative to turn over a number of Federal programs to the States, consolidating them into a single block grant.

WHAT IT IS:

The general concept of the initiative is straightforward. We will work with State and local governments, and the Congress, to select several Federal grant programs for "turnover." We would then take the money that would have been budgeted at the Federal level for the next five years and convert it into a single block grant, thus providing the States with the ability to manage the funds more flexibly and more efficiently.

The funding for the new block grant would approximate the same distribution to the individual States as they would have received under the present program structure -- seeking to ensure that no State would be harmed by the proposal.

THE WAY IT WOULD WORK:

Some very basic principles guide the way the program would work.

First, the list of federally funded programs must be mutually agreed upon -- by the Administration, the States and localities, and the Congress.

Second, the proposal is not some sort of budgetary gimmick designed to reduce the Federal budget or specific Federal programs. The Administration is committed to funding these programs at the projected levels for the next five years.

Third, the proposal is not revenue sharing. Once the final mix of programs is decided, the States would use the funds provided in the same areas as the original programs, although not necessarily in the same proportions and same ways.

Fourth, as I have mentioned, the proposal will have neither winners nor losers. Once a list of programs has been agreed upon, and a current funding level determined, we will calculate, on a State-by-State basis, what the funding level should be, based on the current distribution of funds in the programs that would be turned over.

Finally, the list of "Potential Block Grant Programs" in the Budget is just that -- "potential." The list, in effect, provides in the 11 suggested programs illustrative examples of what might be turned over. These total more than $21 billion in Federal spending. We are already working with organizations that represent State and local governments to select at least $15 billion in programs for turn over.

WHY DO IT:

The reasons for our proposal are as follows.

- The proposal allows the States and localities to manage a pool of resources more flexibly and efficiently.
- The proposal allows those in the best position to determine the needs of their citizens to be free -- to target and focus Federal assistance in accordance with each of their circumstances and to provide for innovation, as "laboratories of democracy."

This last point is important. As the President suggested in his State of the Union address: "The Federal Government too often treats government programs as if they are _of_ Washington, _by_ Washington, and _for_ Washington." The President urged a more dynamic life cycle: "Some programs should increase. Some programs should decrease. Some should be terminated. And some should be consolidated and turned over to the States."

Another reason for our proposal is the growing number of specific grants to State and local governments. In 1980, there were 428 such programs. That number was reduced to 297 following enactment of ten block grants in 1982. But, by 1990, the number had not only climbed back to where we were a decade ago, but increased even further to more than 450!

Once again, we need to reduce Federal overload. Experience with the block grants enacted in 1981 and 1982 has shown that greater efficiency can be achieved if State agencies have more flexibility in administering programs. As you may know, the General Accounting Office has historically supported the use of block grants as a way to "decongest" the Federal system and provide a clearer focal point for accountability. GAO has found that the States reported widespread management improvements under the 1981 block grants. These focused on reduced time and effort preparing applications and reports, improved planning and budgeting practices, and better use of staff. The GAO concluded that block grants work, and work well.

Our proposal would also permit reductions in regulation and associated paperwork. The 11 candidate programs on our list are currently subject to 1,028 Federal Register pages of regulation, requiring an estimated 4.2 million hours of paperwork each year. To gauge the opportunity for simplification, one has only to look at the nine block grants established by the Omnibus Budget Reconciliation Act of 1981. The number of Federal Register pages was reduced from 905 to 31, and paperwork was reduced by 5.9 million hours, or 91 percent.

WHY THESE 11 PROGRAMS?:

Let me restate what Director Darman told members of this Committee last week. "Conceptually we are firm. With respect to specific programs, our list is strictly illustrative." Let me give you a sense of why we picked these program as illustrative.

First, in the area of education:

1) Impact aid payments to local educational agencies compensate them when Federal activities result in increased enrollments or losses of local revenue. The impacts are local; the States are in a better position to gauge the need for assistance.

2) Supplemental Educational Opportunity Grants go to post-secondary schools to supplement Pell grants and other student aid. They are "campus based" and not portable. The Budget proposes increases in the Pell grants program and an increase in school matching for the SEOG program from 15 percent to 50 percent. The States are in a better position than we to judge how these dollars might best be allocated.

3) The Chapter 2 Block Grant Program makes formula grants to States and local educational agencies (based on school-aged population) to improve the quality of elementary and secondary education in both public and private schools. Why not let the States determine the best uses of these education funds?

4) Public library programs help libraries; the largest of these programs consists of formula grants to States. If these programs remain Federal, the Budget proposes to limit their use to support of local library literacy

efforts. Again, why not let the States decide how best to help literacy and libraries?

Second, in the area of environmental protection:

1) EPA's construction grants program provides funds to States to build municipal and regional sewage treatment facilities. Since over 90 percent of treated sewage flow is now treated at the secondary level, Congress has proposed a phase out of this program over time. The States are in a better position to judge the remaining needs and allocations.

Third, in the area of health and human services:

1) State welfare administrative expenses are currently reimbursed at varying rates by the Federal Government in connection with the Medicaid, Aid to Families with Dependent Children, and Food Stamp programs. The block grant proposal would permit consolidation of administrative reimbursement, eliminating separate accounting by program.

2) The Social Services Block Grant provides funds to States to support a variety of social welfare programs. Inclusion of this program permits State and local governments to manage their efforts in this and other areas more flexibly.

3) The Low-Income Home Energy Assistance Program provides money to States to help poor families pay their heating bills. Consolidation of this program in the Administration's proposal will allow States to determine the best way to provide supplemental income to poor people.

Fourth, in the area of housing and community development:

1) Five public and subsidized housing programs are included in this proposal. These provide funds to Public Housing Authorities and others to assist low-income housing through rental subsidies, rehabilitation, crime and drug reduction, and management services. These are all local needs, better dealt with at the State and local, not Federal and local, levels.

2) The Community Development Block Grant Program funds housing rehabilitation, economic development, public works and social services through grants to cities and States. These again are matters over which the States will have a better sense than the Federal Government.

And finally, in the area of law enforcement:

1) The Byrne Memorial State and Local Law Enforcement Assistance Program provides formula and discretionary grants to States and local communities for various crime and antidrug programs. Consolidation of these programs would provide greater flexibility to the States in dealing with these problems.

These 11 programs were selected to serve as examples of the kind of programs that should be considered for turnover to the States. The programs all involve State and local responsibilities; most of them are already largely managed at the State and local level. By and large, we felt that these programs provided good examples of Federal activities that could be better managed closer to home.

Again, let me emphasize that the 11 programs or program groups in the Budget were listed primarily as examples of what might, or could be, consolidated. They are not a final list, but rather a starting point for discussions with the Congress, and State and local government. These discussions are under way, and we will be providing details to the Congress in the coming weeks.

CONCLUSION:

This is a serious proposal. We have given it serious thought and consideration. We know you will give it serious thought and consideration. We also know our partners in government, the States and localities, will give it serious thought and consideration.

We have been enormously encouraged by what we have heard so far. The Governors have been strongly supportive of the concept. You have heard from Governor Ashcroft (currently Vice Chairman of the National Governors' Association). State legislators are also supportive. We have received letters from the National Conference of State Legislatures and the American Legislative Exchange Council. We have also heard, among others, from the President of the Louisiana Senate, Samuel Nunez; the former Speaker Pro Tem of the Colorado House, Paul Schauer; and the Minority Leader of the Illinois House, Lee Daniels.

At the same time, we understand the problems presented to us last week by various representatives of local governments regarding the Community Development Block Grant Program. We have asked them to provide us with a proposal in this area that would meet their concerns. We have also heard from mayors who support the full and open discussion of Federal programs that can be administrated at the State and local levels. Among them are the mayors of Madison, Wisconsin; Modesto, California; and North Charleston, South Carolina.

But, most important, I would urge each of you to attempt to focus the debate on the concept. Then, let's decide where we can agree on specific programs, and move forward to construct a list of programs for turnover that is mutually agreeable and beneficial to all.

One last point. The President's target of at least $15 billion seems a reasonable minimum. It requires a substantial sum to test a new concept. We propose to select the programs, with the advice of the States and localities, and we propose to commit to fund them fully over at least a five year period. Some have suggested that these programs will be vulnerable once lumped into a block grant. I would suggest they will be equally vulnerable if they remain separate in the appropriations process.

We are not proposing to turn over programs of our choosing, and we are not proposing to turn over programs with built-in growth potential down the road and no funding commitment. In this proposal, you get the money when you get the program.

Thank you for allowing me the opportunity to clarify and amplify the Administration's goals and objectives with regard to this "turn-over" initiative.

I will now be happy to take your questions.

Chairman **Sasser**. We appreciate your appearing this morning and appreciate your patient waiting to appear before the committee.

Mr. **Diefenderfer**. Thank you, Mr. Chairman.

Chairman **Sasser**. The committee will stand in recess.

[Whereupon, at 12:41 p.m., the committee recessed, to reconvene at 10:00 a.m., Friday, February 22, 1991.]

Analysis of the President's 1992 Block Grant Proposal

Prepared by the Staff of the United States
Senate Committee on the Budget
February 20, 1991

INTRODUCTION

When President Bush devoted a portion of his State of the Union message to the issue of federalism, he revived the moribund issue of the Federal government's relationship with State and local governments. His timing could not have been better.

State and local governments are now facing some of the most significant fiscal challenges since the early 1980's. According to the National Conference of State Legislatures, 28 states expect budget shortfalls this year. California alone expects a $2 billion deficit this year. Cities are also hard pressed, with more than a third projecting a worsening of already tenuous economic conditions.

In response to growing budget pressures on State and local governments, the President proposes the consolidation of a number of existing grants-in-aid into a single block grant. The 1992 budget identifies a list of grant programs, which totalled more than $21 billion in 1991, as potential candidates for this new block grant.

The Administration claims that this block grant will give state and local governments the "flexibility" they need to cope with their budgetary problems. However, several features of this new program should give city and state officials pause. This analysis examines the President's proposal from a budgetary viewpoint and suggests that state and local officials should carefully consider their response to this new initiative.

DESCRIPTION OF THE PROPOSAL:

The President's budget identifies $21 billion in grants from five major policy areas for possible turnover to State and local governments. From this list, he proposes to consolidate at least $15 billion into one grant that he claims would be "fully funded." Programs under the jurisdiction of the Department of Health and Human Services (HHS) comprise the largest group of grants -- accounting for 42 percent of the $20 billion proposal. Housing and Urban Development (HUD) programs comprise the next largest block of grants with 38 percent of the total. Education (8 percent), Environmental Protection Agency (EPA) (9 percent), and Justice (2 percent) programs round out the list of candidates for consolidation. Appendix I provides a more detailed list of programs and includes the President's proposed spending (both budget authority and outlays) for these programs through 1996.

THE BLOCK GRANT IS SERIOUSLY UNDERFUNDED.

The commitment by the President to "fully fund" his proposed new block grant is crucial to maintaining support from State and local governments who would otherwise be concerned that consolidation is simply a prelude to large budget cuts. But a more thorough examination of the President's budget reveals he would not fully fund the consolidated programs. **Indeed, most of the grants on the list are slated for significant cuts over the next five years.**

Using the Administration's own current services baseline as a basis for comparison, the analysis reveals that the President is actually proposing dramatic cuts in the grants he has selected for turnback to State and local governments. (Current services represents the Administration's estimate of what it would cost to maintain the same level of program service for each of the next five years.)

The table below compares the President's budget for these programs with the current services estimates. As the table shows, the President's budget plans to cut the grant programs proposed for consolidation by $2.9 billion in 1992 and $27.4 billion over the next five years. The only conclusion that can be drawn from these statistics is that the Administration's much-vaunted new block grant is a backdoor way of cutting programs. Appendix II provides OMB current services projections for each grant program.

TABLE I

GRANT PROGRAMS PROPOSED FOR CONVERSION TO A BLOCK GRANT IN THE 1992 BUDGET

($ in millions)

	1992	1993	1994	1995	1996	1992-1996
Current Services	24,108	25,299	26,477	27,791	29,082	155,544
President's Budget	21,253	21,026	20,845	20,798	21,428	128,116
Shortfall	2,855	4,273	5,632	6,993	7,654	27,428

STATE AND LOCAL GOVERNMENTS ARE FACING DIRE FISCAL CONDITIONS ALREADY, AND CANNOT MEET THE FISCAL SHORTFALL CREATED BY THE NEW BLOCK GRANT:

The healthy fiscal condition of many State and local governments during the 1980's has deteriorated under increasing economic burdens. As the national economy has weakened, the ability of State and local governments to respond to growing budgetary pressures declines. Evidence of continued fiscal distress at the State and local level is mounting.

- o Nearly two-thirds of the States will face budget shortfalls in 1991. California expects a $10 billion deficit. Connecticut's shortfall will top $2 billion. Balanced budget amendments will force most States to raise taxes.
- o State revenues are falling short of projections. According to the National Conference of State Legislatures, general revenue collections in half the States are more than 1 percent below the level on which 1991 State spending was based. Eleven States face a shortfall of revenues coming in at least 5 percent below 1991 spending levels.
- o Federal support for State and local governments dropped dramatically during the last decade. In constant dollars, Federal grants-in-aid fell from $105.9 billion in 1980 to $93.4 billion in 1989 -- leaving State and local governments to shoulder a growing list of responsibilities.
- o The Federal government's contributions as a portion of State and local receipts have also declined. In 1980, States received 27.5 percent of their revenues from the Federal government; by 1988, that figure had declined to 24.1 percent. For local governments, intergovernmental revenues accounted for 44.1 percent of total revenues in 1980 and 37.5 percent by 1988.

Current state budgetary pressures mean that additional cuts in Federal aid, such as those contained in the block grant, will be difficult to absorb. **Indeed, States may be under considerable pressure to use funds from the new block grant to offset their own budget deficits and not to pass through much needed revenues to local governments.**

CITIES ARE FEELING THE FISCAL PINCH. FEDERAL AND STATE AID TO CITIES HAS SHRUNK. THE 1992 BLOCK GRANT PROPOSAL DOES NOT REVERSE THAT TREND.

Federal aid to American cities has declined substantially in the 1980's. Data from the U.S. Census Bureau on city finances shows the following trends for our largest cities -- those with 300,000 population or more. (See Appendices III & IV).

- Total Federal aid to our largest cities was $5.9 billion in 1979-1980. By 1987-1988 that total had dropped to $4.2 billion -- a decline of $1.7 billion in just eight years.

- A measure of cities' fiscal distress has been the growing need to increase taxes to make up Federal funding shortfalls. Between 1979-1980 and 1987-1988, local tax revenues in these large cities increased by an average of 82.3 percent. During that same time, total State aid increased by 49.8 percent and total Federal aid dropped by some 35.1 percent. Large cities most frequently faced major losses of Federal aid, caused by the loss of General Revenue Sharing, and State aid increases that did not prevent major local tax increases. (See Appendix III).

- In 9 of the 14 largest cities surveyed, local taxes were the fastest increasing part of city budgets.

- During the 1980's cities faced a tremendous fiscal loss due to a cutback in Federal and State unconditional assistance to cities. Thus, in 1979-1980, our largest cities received $2.6 billion in Federal revenue sharing and unconditional aid from State governments. By 1987-1988, they received the same amount just $2.7 billion. Cities simply were not receiving Federal or State aid that allowed them the flexibility to meet their most pressing needs. (See Appendix IV).

The 1992 block grant proposal simply does not address the current fiscal problems of large American cities. Cities are saddled with ever increasing social and economic needs and declining revenue bases. Yet, the 1992 block grant proposal does not take these needs into account. It talks about more flexibility for State governments in the administration of block grants, but it does not set forth a block grant proposal that will ease the fiscal needs and problems of American cities.

THE BUDGET PLACES OTHER BURDENS ON STATE AND LOCAL GOVERNMENTS.

In addition to the President's block grant proposal, the budget includes a number of other program changes which would place additional financial burdens on State and local governments. Consider these examples:

- **Medicaid:** The budget proposes to institute new medical co-insurance payments (at 20 percent of charges) for Medicare beneficiaries for use of clinical laboratory services. This Medicare savings item would have a direct impact on States' Medicaid expenditures since, under current law, Medicaid must pay for all Medicare co-insurance, premiums and deductibles for those Medicare beneficiaries who are also eligible for enrollment in Medicaid. As a result of this Medicare savings item, states would automatically incur additional Medicaid expenses of approximately **$200 million over five years.**

The budget also proposes a modest Medicaid expansion to allow States to provide uniform eligibility for pregnant women and infants in medically-needy and AFDC-related categories of program eligibility. States which elect to pick up this new coverage option would incur new costs, but the option would be at State discretion, rather than mandatory.

- **Highways:** The President proposes to shift highway and mass transit costs to states and localities. For example, the Federal matching share for construction is 90 percent on the current interstate highway system. By contrast, under the Administration's proposed "National Highway System," the Federal matching share would decrease to 75 percent. This proposal could cost states millions and require them to raise taxes. In addition, major metropolitan areas with populations of 1 million or more would lose Federal operating money for mass transit under the Administration's plan. For New York City, this translates into a loss of about $100 million in Federal funding.

- **State Legalization Interim Assistance Grants (SLIAG):** The President proposes to rescind $1.1 billion for this program, which provides support to states for financial, medical, and educational assistance to newly legalized aliens.

- **Guaranteed Student Loans:** The Administration's budget proposes to impose new State responsibilities in the Federal Guaranteed Student Loan (GSL) program. The proposal would require States to back a designated guarantee agency with the full faith and credit of the State, or subject schools licensed in that State to a risk-based premium. Further, States hosting schools with high default rates would be required to pay a share of the default costs. Given recent experiences with unstable guarantee agencies, the proposal could inflict substantial financial burdens on affected States.

- **Community Services Block Grants:** Consistent with previous years, the President proposes to eliminate funding ($420 million in BA) for this program, which provides grants to States, territories, and Indian tribes to aid poverty-stricken areas. Ironically, while the budget proposes increases in Head Start, eliminating CSBG would undermine the structure by which Head Start funds are distributed to community action agencies.

THE BLOCK GRANT PROPOSES TO TRANSFER RESPONSIBILITIES WITHOUT ADEQUATE MONEY TO MEET THE NEEDS.

Another hidden State cost of the block grant proposal is Administration's proposed transfer of responsibilities to the States without the corresponding resources to meet those obligations. One example of this is the inclusion of the public housing operating subsidy and the public housing modernization programs on the list of programs for transfer.

The public housing operating subsidy program provides funding to local public housing authorities (PHAs) to cover the difference between that PHA's operating expenses and the rents it receives from the poor tenants that reside in the public housing projects. The tenant rent contributions toward housing and utility costs are fixed at 30% of their adjusted gross income. Funds are distributed to PHAs through the Performance Funding System, a formula based on the average costs of a well-managed PHA.

Throughout the 1980's housing policy has pushed the PHA's to serve an increasingly poorer population through targeting to households that are homeless, living in substandard housing, or paying an inordinate amount of their incomes for rents. This pressure has reduced total tenant incomes and, therefore, reduced the rent rolls. At the same time, energy costs, liability insurance costs, and employee wages and benefits have continued to increase for the local PHA. Federal funding has consistently failed to keep up with this growing shortfall. **According to the Council of Large Public Housing Authorities, the $2.2 billion proposed by the Administration for this program in 1992 represents only 86% of the total Performance Funding System requirements.**

The shortfall in funding is even more dire in the case of public housing modernization. Modernization funding goes to rehabilitate and repair public housing units that have fallen into disrepair. **According to a HUD study, the backlog of public housing repair needs at public housing projects around the nation ranges from a minimum of $11.2 billion for basic repairs and replacements of physical components to $24.4 billion if one also includes upgrades, maintaining a project's long-term viability, energy conservation, handicapped access, and lead-based paint abatement in the needs assessment.**

Moreover, the HUD study determined that the public housing inventory -- if it were well-maintained without the existing backlog -- would require a minimum of $1.5 billion per year in on-going modernization funding to meet the normal deterioration of this housing. Given the effect of the existing repair backlog, appropriations of $3.7 billion per year (163 percent higher than that proposed by the administration in 1992) would barely get the backlog down to under $5.0 billion by the year 2000. **The Administration's 1992 budget calls for public housing modernization funding at $2.3 billion; at this level of funding, the States would be digging out from their new public housing maintenance responsibilities for many years to come.**

UNANSWERED QUESTIONS ABOUT THE BLOCK GRANT PROPOSAL

Beyond a simple listing of programs targeted for consolidation, the budget reveals little about the reasoning that went into the President's block grant proposal. For example, the budget offers no explanation of why existing grants with vastly different purposes (eg. waste water treatment grants and impact aid) should be combined. In addition, the budget makes no case for consolidation of existing education and social services block grants.

Finally, any block grant proposal has the potential to shred existing intergovernmental relationships and alter funding distribution patterns. New institutional relationships will emerge. As program advocates compete for a smaller block of money, winners and loser will be created. These shifts will certainly cause disruptions and increase costs. The slapped-together nature of the Administration's proposal suggests little underlying rationale for the proposal. In fact, the budget does not make the case that the benefits of block grants outweigh their costs.

The enormity of the task in converting a myriad of established and disparate programs into a cohesive block grant is easily demonstrated by the following table. Some of the programs in the package are distributed by formula; other are awarded through competitive processes. Some grants go to States, some go directly to cities, and some go directly to the beneficiaries. Institutions now using the funds are as diverse as school districts, public housing authorities, and churches.

The table contains several programs that include Federal set-asides: EPA construction grants for states are often earmarked for cities with particular needs. CDBG has long had an important component for historically black colleges. Impact aid attempts to bolster revenues in communities where the presence of Federal facilities reduces the tax base. Public housing funds go directly to Indian Housing Authorities; historically States have had little official involvement with Indian reservations. The budget offers no explanation of how the block grant will dilute these Federal priorities.

CURRENT DISTRIBUTION OF PROGRAMS PROPOSED FOR BLOCK GRANT

Agency/ Program	Description	How Distributed?	Key Distribution Factors	State Share	Local Share	Other Considerations About Recipients Distribution	Comments
Dept Ed. - Impact Aid	Money to school districts with federal facilities	Formula	# of children in affected school district	0%	100%	mostly directed to districts dominated by military or Indian reservations	Budget proposes to limit assistance to districts where parents live and work
Dept Ed. - Supplemental Educational Opportunity Grants	Grants to needy undergraduate students	Formula	# of need-based recipients of Federal student aid (Pell Grant recipients)	0%	0%	Federal Government makes payments directly to schools	Traditional colleges receive most SEOG funding
Dept Ed. - Chapter 2	Elementary/ Secondary School Improvements; targeted to special education needs	Formula to States	Population	up to 20%	80%	States must distribute funds to local school systems using criteria that weigh "higher than usual costs of education"	Intent of the program is to take into account higher costs of disabled, disadvantaged students
Dept Ed. - Public Libraries	Expands and improves public library systems	Formula to States	Population	100%	0%	States distribute funds to local school districts	States/locals required to match grants 33-66% of Federal grant award based on State per capita income
EPA - Sewage Treatment Construction Grants	Money to State revolving funds set up under 1987 Clean Water Amendments	Formula to States; Earmarks for cities	Allotment formula based on need	80%	20%	Funds are directed to States' most pressing wastewater treatment needs. Currently managing 4,400 projects	States required to match 20% of the Federal grant

HHS - State Welfare Administration Expenses	Funding for State Administrative costs for AFDC, Food Stamps, and Medicaid	Based on States' estimates of costs	Growth in entitlement program participation and changes in Federal mandates	100%	0%	Federal match ranges from 50% to 90% depending on the type of costs incurred	States have little or not control over many of the program growth factors
HHS - Social Services Block Grant	Grants for a variety of social services	Formula	Population	100%	0%	Funds have few restrictions; States may allocate funds to local social service agencies	Already a true block grant; was originally created as a block grant in 1981
HHS - Low Income Home Energy Assistance Program	Cash assistance for home heating costs for low-income families	Formula	Use of petroleum based heating oils	100%	0%	States distribute funds to local governments and also directly to families	Funding is less than one-half of the 1992 authorization level
HUD - Public Housing Modernization	Funding for repair and replacement of public housing; estimated backlog equals $24 billion	Formula (starting in 1992)	Extent of modernization backlog needs and accrual needs	0%	100% to public housing authorities (includes Indian Tribes)	Funding goes directly to public housing and Indian housing authorities; set-aside for resident management groups	Formula begins in 1992; small public housing authorities continue to apply for funding on a competitive basis
HUD - Public Housing Operating Subsidies	Funding to public housing authorities for operating costs	Formula	Formula takes into account expected costs for a typical, average well-managed public housing authority	0%	100% to public housing authorities (includes Indian Tribes)	Funding goes directly to public housing authority; funding is net of tenant rent contributions which are 30% of poor tenant's income	Council of Large Public Housing Authorities estimates that 1992 request is only 86 percent of full-funding needs

HUD - Drug Elimination Grants	Grants for programs to eliminate drugs in public housing	Competitive Grants	Drug-related crime levels, quality of applicant's plan, local capability, and extent of resident participation	0%	100%	Set-asides for technical assistance to public housing authority officials and resident management groups and a national Drug-Free public housing clearinghouse	Funding pays for security force, reimbursing local police, physical project improvements, and drug abuse prevention programs
HUD - Elderly/ Handicapped Housing Construction	Construction costs of projects for elderly and handicapped	Competitive Grants	Prior participation, non-profit sponsor's capacity, design features, and local government comments	0%	0%	Funds go directly to non-profit sponsors	Administration proposes significant cuts in new construction in favor of leasing existing housing
HUD - Moderate Rehabilitation SRO	Rehabilitation of single room occupancy structures for the homeless	Competitive Grants	Applicant capacity and extent of planned service component	0%	0%	Funds distributed based on a national competition; recipients include States, local governments, and Indian tribes	Recipients must provide supportive services as a match for Federal funding
HUD - Community Development Block Grants	Housing rehabilitation, economic development, public facilities, homeless assistance	Formula	Poverty, Population, Population Growth Lag, Age of Housing, Overcrowded Housing	30%	70% (includes Indian Tribes)	Local or "entitlement" program includes large cities, urban counties, and consolidated small cities, States distribute funds to small cities and rural communities	Set-asides for child-care demonstration, neighborhood development demonstration, insular areas, and historically black colleges
Justice - Byrne Memorial Law Enforcement Assistance	Augments States' drug enforcement efforts	Formula to States	State population with a minimum grant level	100%	0%	Includes three small set-asides totaling about $35 million	Under President's Budget, States will be required to provide a 50% match

CONCLUSION

A more thorough examination of the Administration's block grant proposal reveals some troubling issues which must be addressed. The proposal underfunds a number of the programs slated for turnback at a time when State and local governments are under increasing fiscal strain. In addition, the Administration's rhetorical pledge to assist States and localities seems incongruous with other parts of the budget which would place additional burdens on block grant recipients. Finally, the budget does not provide enough money to meet the responsibilities the Administration is turning over to State and local governments, nor does it provide any strong rationale for the restructuring the proposal would entail.

Clearly, this attempt at "New Federalism" has some flaws. It could leave States and cities with more, rather than fewer, fiscal problems. It could reduce funding for essential safety net programs, and further diminish the role of the Federal government in solving our nation's problems. These flaws need to be addressed before a block grant program can be considered a realistic alternative.

APPENDICES:

I. President's Block Grant Proposal

II. Current Services for Block Grants in the President's Proposal

III. Percentage Change in Revenue Sources for Large Cities

IV. Trends in Unconditional State and Federal Aid to Large Cities

APPENDIX I:

PRESIDENT'S BLOCK GRANT PROPOSAL

GRANT PROGRAMS PROPOSED FOR CONVERSION TO A BLOCK GRANT IN THE 1992 BUDGET

($ in millions, President's Proposals)

PROGRAM	1991		1992		1993		1994		1995		1996	
	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O
Education:												
Impact Aid Payments	781	815	620	695	620	651	620	624	620	620	620	620
Supplemental Ed. Opportunity Grants	520	404	347	498	347	352	347	347	347	347	347	347
Chapter 2 Block Grant	449	533	449	465	449	445	449	449	449	449	449	449
Public Libary Services	143	155	35	115	35	71	35	35	35	35	35	35
Environmental Protection Agency:												
Construction Grants	2083	2345	1900	2195	1200	2082	600	1883	0	1482	0	1025
Health & Human Services:												
State Welfare Admin., expenses for Medicaid AFDC, & Food Stamps	5178	5167	5878	5867	6453	6440	7062	7048	7701	7686	8366	8349
Social Serv. Block Grant	2800	2800	2800	2800	2800	2800	2800	2800	2800	2800	2800	2800
LIHEAP	1610	1669	1025	991	875	796	625	552	475	393	375	287
Housing and Urban Development:												
Selected Housing Grants	5512	3185	4789	3805	4837	4484	4897	4685	4961	5036	5026	4968
Community Development Block Grants	3200	3073	2920	3097	2920	3061	2920	2906	2920	2914	2920	2915
Justice:												
Byrne Memorial State & Local law Enforcement assistance program	490	342	490	421	490	475	490	481	490	484	490	491
TOTAL	22766	20488	21253	20949	21026	21657	20845	21810	20798	22246	21428	22286

DESCRIPTION OF GRANT PROGRAMS PROPOSED FOR CONVERSION TO A BLOCK GRANT IN THE 1992 BUDGET

EDUCATION:

o Impact Aid payments provide grants to local education agencies to compensate them when Federal activities result in increased enrollments or loss of local revenues -- most of the funding now goes to districts educating students whose parents are in the uniformed services or those who reside on Indian land. For 1992, the President proposes major policy changes, including:

1) increasing "a" payments (made on behalf of children who live on and have a parent who works on Federal property) to districts with high numbers of children with federally employed parents, and substantially decreasing payments to districts with low numbers of federally employed parents; and,

2) eliminating "b" payments (made on behalf of children who live on or have a parent working on Federal property.

o Supplemental Opportunity Education Grants (SEOGs) provide funding (up to $4,000 per academic year) to undergraduate students with a demonstrated need under a statutory need analysis system. The exact grant amount is left to the discretion of the institutional financial aid administrator.

o Chapter 2 block grant provides funds to States to improve the quality of elementary and secondary education for children in public and private schools. States are currently required to distribute a portion of these grants to school systems by criteria that weighs in a "higher than usual cost" of education for special groups of children (i.e. disabled, disadvantaged).

o Public Library Services provides grants to states to assist in expanding and improving public library services, especially for under-served groups.

ENVIRONMENTAL PROTECTION AGENCY:

o Sewage Treatment Construction Grants provide money to localities for sewage treatment plant construction. The 1987 Clean Water Act amendments provide for a phased elimination of these Federal grants and establish a state revolving fund which should become self-supporting after 1994. Currently, 80 percent of Federal money goes into the state revolving fund and 20 percent is earmarked directly to cities. States must match 20 percent of the Federal contribution made to the state revolving fund.

Although, the 1987 Clean Water Act amendments call for the end of federal funding after 1994, it is doubtful that this will occur. Federal funding is likely to decline in the out years, especially for the state revolving fund, but not at a level proposed by the President's 1992 budget. The President's proposal does not take into account future funding for direct grants earmarked for cities, which the Administration is requesting $400 million for 1992.

HEALTH AND HUMAN SERVICES:

State Welfare Administrative Expenses The block grant would include federal payments to states for administrative expenses for the Medicaid, Food Stamps and AFDC programs. Under current law, federal matching payments generally provide between 50 and 90 percent of the financing for administrative costs, depending on the specific activity. For budget scoring purposes, these payments are treated as mandatory, or entitlement, spending as are the programs' direct benefit costs. Increases in administrative expenses are not always under state control, often driven in changes in federal mandates for program administration as well as benefit changes.

Total funding for state welfare administrative expenses under the block grant (excluding Medicaid provider facility survey and certification activities, which is proposed to be financed separately through new user fees, and Medicaid fraud control activities) is projected to be $5.9 billion in 1992, growing to $8.3 billion by 1996. This projected level of funding would appear to include amounts appropriate to maintain current services levels throughout the five-year budget period. Future federal mandates and required program changes are very difficult to predict, however. Several questions need to be considered: If a block grant was considered discretionary, would increases in administrative expenses necessitated by new federal mandates be assured, as they are now? Would increases in administrative costs necessary as a result of increased program enrollment be assured, as they are now? Would annual appropriations for the new block grant, including welfare program administrative expenses, have to compete with other discretionary programs under the discretionary funding cap?

- Social Services Block Grant -- The Social Services Block Grant provides funding for states to provide a variety of social services. States have wide discretion with the federal funds, but are generally directed at child abuse and neglect prevention services and programs that reduce or eliminate dependencies and promote self-sufficiency.

- Low Income Home Energy Assistance Program (LIHEAP) -- provides energy assistance to low income households that use heating oil, petroleum gas, and kerosene. Homes that receive other low-income government assistance and homes that earn less than 150 percent of the poverty level are eligible. States are allowed flexibility in determining payment levels and types of payments. Many states distribute funds through local governments.

Funding for LIHEAP has decreased dramatically over the last several years. The program received its peak funding level in 1985 and 1986 at $2.1 billion. By last year, funding had decreased to $1.4 billion, and this year, the President proposes another cut of $490 million under last year's level for a total of $925 million. This cut could reduce by 2 million, the number of households served by the program. This year's authorization level is $2.23 billion.

HOUSING AND URBAN DEVELOPMENT:

o Public Housing Modernization -- provides funds to public housing authorities (PHA) nationwide for the repair of public housing projects. Activities include replacement of major systems, upgrading projects, lead-based paint abatement, handicapped access, and energy conservation. HUD studies have indicated that the backlog for these needs could reach $24.3 billion.

o Public Housing Operating Subsidies -- provides funding to PHAs for their operating and administrative expenses. Funds are distributed through a formula that calculates the expected costs of the average well-managed PHA. Operating subsidies are expected to make up any shortfall from tenant rent contributions which are set in law at 30 percent a tenant's adjusted gross income.

o Drug Elimination Grants -- grants to PHAs to aid in strategies to eliminate drug use in specific projects. Funds may be used for reimbursing the local police, hiring security officers, adding security measures to a building, and providing drug abuse and drug prevention counselling.

o Elderly and Handicapped Housing Construction Grants -- provides grants to qualified non-profit housing development organizations for the purpose of constructing housing for very-low income elderly or handicapped households.

o Section 8 Moderate Rehabilitation Single Room Occupancy and Shelter plus Care Single Room Occupancy Program -- provides 10-year rental assistance payments to owners of buildings with single rooms available to the homeless. Rental assistance payments are equal to the difference between 30 percent of the tenant's income and a fair market rent. The Shelter plus Care program which adds the local provision of service in conjunction with the rental assistance is expected to replace the regular Section 8 moderate rehabilitation program in 1992.

o Community Development Block Grants -- Currently, cities claim 70 percent of total Community Development Block Grant (CDBG) funding. A proven success, CDBG funds have been used by cities for a variety of purposes --

from affordable housing to assistance for the homeless. The loss of such direct funding as part of the President's Block Grant and the resulting competition for funds would only serve to strain already limited city resources. In addition, CDBG funding has declined by 47 percent in real terms over the past decade.

JUSTICE:

o Byrne memorial state and local law enforcement assistance program These formula grants for drug control and system improvement provide funds to augment states' drug law enforcement efforts. Each state receives an amount equal to .25 percent of the total grant. The remainder of the funds is allocated by population.

States are required to match 50 percent of these funds with a cash contribution of their own revenues. In the past, Congress has waived this to 25 percent.

APPENDIX II:

CURRENT SERVICES FOR BLOCK GRANTS IN THE PRESIDENT'S PROPOSAL

GRANT PROGRAMS PROPOSED FOR CONVERSION TO A BLOCK GRANT IN THE 1992 BUDGET
(Current Services, $ in millions)

	1991		1992		1993		1994		1995		1996	
PROGRAM	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O
Education:												
Impact Aid Payments	781	815	814	834	846	850	878	869	911	902	943	934
Supplemental Ed. Opportunity Grants	520	404	542	517	564	544	585	565	607	587	628	608
Chapter 2 Block Grant	449	533	468	467	486	462	505	485	524	503	542	522
Public Libary Services	143	155	149	154	155	157	161	155	167	161	173	167
Environmental Protection Agency:												
Construction Grants	2102	2354	2190	2200	2277	2140	2364	2146	2451	2154	2537	2160
Health & Human Services:												
State Welfare Admin., expenses for Medicaid AFDC, & Food Stamps	5178	5167	5878	5867	6453	6440	7062	7048	7701	7686	8366	8349
Social Serv. Block Grant	2800	2800	2800	2800	2800	2800	2800	2800	2800	2800	2800	2800
LIHEAP	1610	1669	1678	1485	1745	1528	1811	1585	1878	1644	1944	1702
Housing and Urban Development:												
Selected Housing Grants	5512	3185	5743	3819	5973	4570	6158	5024	6444	5695	6684	6117
Community Development Block Grants	3200	3073	3334	3114	3468	3445	3600	3371	3733	3499	3868	3628
Justice:												
Byrne Memorial State & Local law Enforcement assistance program	492	401	512	455	532	490	553	526	575	547	597	568
TOTAL	22787	20556	24108	21712	25299	23426	26477	24574	27791	26178	29082	27555

APPENDIX III:

PERCENTAGE CHANGE IN REVENUE SOURCES FOR LARGE CITIES

Percentage Change in Revenue Sources for Large Cities
(From 1979-80 to 1987-88)

City:	Total Revenue	State Revenue	Federal Revenue	Local Revenue
	Percentage Change from 1979-80 to 1987-88			
All cities over 300,000 in population	72.6	49.8	-35.1	82.3
Atlanta	72.6	-74.6	-25.3	76.2
Baltimore	45.1	47.8	-36.8	74.9
Boston	50.2	139.1	-67.6	16.8
Chicago	58.4	82.2	-41.5	94.2
Dallas	96.3	168.4	-70.3	102.3
Denver	67.1	103.7	-48.0	69.2
Detroit	23.2	82.9	-67.2	41.4
Los Angeles	96.7	106.1	-67.6	120.1
Memphis	42.9	76.2	-84.1	45.2
Nashville	100.4	95.3	-69.4	114.1
New York City	77.3	52.2	-29.7	100.5
Philadelphia	63.4	48.1	-43.4	84.3
St. Louis	17.3	-35.5	-56.4	36.8
San Francisco	83.2	91.5	-59.0	115.0

Source: U.S. Bureau of the Census, City Finances, 1979-80, 1987-88

APPENDIX IV:

TRENDS IN UNCONDITIONAL STATE AND FEDERAL AID TO LARGE CITIES

Trends in Unconditional State and Federal Aid to Large Cities
1979-80 and 1987-88
(Dollars in millions)

	1979 - 1980		1987 - 1988		Change in Dollars	
	State Uncond. Aid	Federal Gen. Rev. Sharing	State Uncond. Aid	Federal Gen. Rev. Sharing	State Uncond. Aid	Federal Gen. Rev. Sharing
All cities over 300,000 in population........................	1,744	961	2,762	0	1,018	-961
Atlanta..	3	8	6	0	3	-8
Baltimore..................................	19	25	36	0	17	-25
Boston..	20	17	325	0	305	-17
Chicago.....................................	117	74	156	0	39	-74
Dallas..	2	15	3	0	1	-15
Denver.......................................	4	12	4	0	0	-12
Detroit..	149	40	270	0	121	-40
Los Angeles..............................	85	48	132	0	47	-48
Memphis....................................	18	12	32	0	14	-12
Nashville....................................	10	9	21	0	11	-9
New York City...........................	777	291	652	0	-125	-291
Philadelphia..............................	8	48	16	0	8	-48
St. Louis....................................	1	13	3	0	2	-13
San Francisco...........................	37	22	64	0	27	-22

Source: U.S. Bureau of the Census, City Government Finances, 1979-80, 1987-88

City Fiscal Conditions
1980-1990

A 50-CITY SURVEY
January 1991

THE UNITED STATES CONFERENCE OF MAYORS
1620 EYE STREET, N.W.
WASHINGTON, D.C. 20006
(202) 293-7330

THE UNITED STATES CONFERENCE OF MAYORS

The Honorable Robert M. Isaac, President
Mayor of Colorado Springs

J. Thomas Cochran
Executive Director

This report was written by Lance Simmens, Assistant Executive Director, The U.S. Conference of Mayors and Daniel Schwartz, whose assistance in preparing the report was invaluable.

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J. THOMAS COCHRAN

January 1991

Dear Mayor:

The following report was compiled from responses of 50 cities to a survey questionnaire sent to them last November. The United States Conference of Mayors was directed to undertake the survey by its Executive Committee at a meeting held in Colorado Springs, Colorado in September.

Over the past decade Mayors have testified before Congress, sent letters and telegrams to Congress and the Administration, and placed phone calls to Federal officials apprising them of the financial difficulties facing cities in light of drastic federal funding cutbacks, emerging physical and social infrastructure problems, and a plethora of unfunded federal and state mandates.

A massive effort was mounted to protect General Revenue Sharing, the most efficient, cost-effective, federal program to aid cities ever devised. However, our efforts failed. This study documents what has happened in the era of "fend-for-yourself" federalism and what cities have been doing to responsibly deal with federal disinvestment.

The cities covered in this survey span the spectrum in terms of size and geographical location. What it shows is simply this: while the federal government's contributions to cities has been declining dramatically, states have stepped in to fill a small fraction of the gap, cities have used an assortment of traditional and innovative measures to fill the gap, but the growing problems facing cities are overwhelming.

If the federal government can rescue mismanaged and corrupt financial institutions it certainly can expend just a fraction of that amount on the crisis facing American cities. Just as we can find resources to protect our troops abroad, we must find resources to protect our citizens at home.

Sincerely,

Tom Cochran

J. Thomas Cochran
Executive Director

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EXECUTIVE SUMMARY

This report summarizes responses by 50 cities on the fiscal trends over the past ten years in view of the shifting sands of federalism brought about by the Reagan Revolution. Chronic budget deficits and the accompanying budgetary austerity combined with a deliberate shift in budget priorities away from domestic discretionary spending which Congress and the Administration approved over the past decade have produced the following:

- federal funds as a percentage of city budgets was reduced by over 64 percent from an average of 17.7 percent in 1980 to an average of 6.4 percent in 1990.
- cities have moved to fill this gap, increasing their percentage of city budgets from 64.7 percent in 1980 to 75.0 percent in 1990.
- states have moved to fill the gap but only marginally so, increasing their average contributions from 11.1 percent in 1980 to 12.2 percent in 1990.
- at the same time, city budgets have increased by 95.5 percent to deal with increasing problems.
- to deal with the resulting financial shortfalls, 72 percent of those cities responding elected to raise taxes, 42 percent raised taxes and cut services, and 32 percent raised taxes, cut services, reduced city workers, and raised revenues through various other measures.
- 56 percent of those responding indicated that they had raised taxes in the last year.
- to compound these trends, unfunded federal and state mandates have had tremendous cost impacts upon cities: environmental and labor issues lead the list.
- public safety, economic development, infrastructure, public finance, and community/neighborhood development issues were among the top five priorities facing cities in 1990.

CHAPTER I

PLEASE INDICATE BELOW HOW MUCH MONEY EACH LEVEL OF GOVERNMENT PROVIDED IN REVENUES TO YOUR CITY'S BUDGET IN 1980 AND 1990.

Of the fifty cities surveyed, federal funds as a percentage of city budgets averaged 17.7 percent in 1980 and only 6.4 percent of city budgets in 1990. This represents a 63.8 percent reduction in federal effort over the decade. This occurred at a time when city budgets increased an average of 95.5 percent to cope with ever-growing social service demands and inflation. When adjusted for inflation, city budgets grew by 22.4 percent in real terms during the 1980-1990 period. Thus, while city budgets were growing in both nominal and real terms, the federal government's contribution was contracting by nearly 64 percent.

To help fill this gap, city contributions were increasing from an average of 64.7 percent in 1980 to 75.0 percent in 1990. This represents an increase of 15.9 percent. At the same time, state government contributions grew from an average of 11.1 percent of city budgets to 12.2 percent, an increase of 9.9 percent. Hence, while city budgets were increasing and federal contributions were being reduced dramatically, both city and state governments stepped in to try to fill the resulting gap, with cities increasing their percentage contributions by nearly 70 percent more than corresponding state percentage contributions.

TABLE I

Revenue Source	1980% of Total City Revenue	1990% of Total City Revenue	%Change in Fund
Federal Government	17.7	6.4	-63.8
State Government	11.1	12.2	+ 9.9
City Government	64.7	75.0	+15.9

Table I represents the consolidated averages of percentage contributions of the fifty cities surveyed. Table II represents a breakdown of the fifty individual cities and their respective percentage contributions.

Table III shows the nominal percentage change in city budgets over the decade, not accounting for inflation in Column I as well as the real percentage change in city budgets adjusted for inflation in column 2.

TABLE II

PERCENTAGE OF GOVERNMENTAL CONTRIBUTIONS TO CITY BUDGETS 1980-1990 BY CITY

	FEDERAL			STATE			CITY			OTHER		
	1980	1990	80/90 % CHGE	1980	1990	80/90 %CHGE	1980	1990	80/90 %CHGE	1980	1990	80/90 %CHGE
Akron	31.6	20.4	-35.4	6.5	5.9	- 9.2	61.9	73.5	+18.7	0	0.3	-
Albany	13.7	1.5	-89.1	20.1	12.8	-36.3	66.2	85.8	+29.6	-	-	-
Alexandria	10.1	3.8	-62.4	13.5	17.3	+28.1	76.4	76.5	+ 0.1	-	-	-
Allentown	10.6	6.8	-35.8	2.8	3.2	+14.3	85.9	89.4	+ 4.1	0.6	0.6	0
Baltimore	29.9	15.0	-49.8	38.2	33.8	-11.5	29.6	48.2	+62.8	0.5	1.7	+240
Binghamton	28.9	6.6	-77.2	4.6	13.1	+176.6	49.5	67.3	+36.0	17.0	13.2	-22.4
Birmingham	13.5	4.5	-65.2	0.4	1.7	+325	82.4	91.1	+ 8.0	2.3	2.8	21.7
Boise	28.0	8.8	-68.8	4.4	7.0	+59.1	67.5	84.2	+24.7	0	0	0
Boston	14.6	4.5	-69.2	21.1	30.6	+45.0	63.4	64.6	+ 1.9	0.9	0.2	-77.8
Charlotte	18.8	6.5	-65.4	2.3	3.3	+43.5	56.2	87.3	+55.3	22.7	3.0	-86.8
Cheyenne	20.4	1.4	-93.1	22.8	35.1	+53.9	39.1	36.0	-7.9	19.4	27.5	+41.8
Chicago	29.6	11.7	-60.5	18.5	16.4	-11.4	51.9	71.8	+38.3	0	0.2	-
Colorado Spg	7.5	0.9	-88.0	4.5	7.2	+60.0	87.8	88.2	+ 0.5	0.2	3.8	+1800
Cranston	24.1	4.7	-80.5	13.7	19.7	+43.8	62.1	75.6	+21.7	-	-	-
Decatur	18.0	5.5	-69.4	10.6	14.1	+33.0	70.5	80.0	+13.5	0.7	0.4	-37.7
Detroit	22.9	11.7	-48.8	17.0	25.1	+47.3	60.8	63.0	+3.6	-	-	-
Evanston	1.3	0.4	-69.2	0.7	0.6	-14.3	97.7	99.0	+ 1.3	0.2	0.4	+100
Galveston	18.6	3.9	-79.0	0.4	5.4	+1250	80.9	90.6	+12.0	0.1	-	-100
Glendale	9.2	6.6	-28.3	16.4	27.2	+65.9	74.4	62.1	-12.3	-	4.1	0
Houston	0.09	.03	-66.0	0.6	0.03	-95.0	99.1	97.9	- 1.2	0.1	1.4	+1300
Indianapolis	43.8	9.0	-79.5	6.8	9.2	+35.3	49.4	81.6	+65.2	0	0.2	-
Irvine	2.0	1.3	-35.0	7.7	10.1	+31.2	79.1	88.1	+11.4	11.1	0.5	-95.5
Jackson	28.5	10.0	64.9	23.6	29.0	+22.9	29.2	41.3	+41.4	18.7	19.8	+ 5.9
Jacksonville	24.2	10.8	-55.4	6.2	7.7	+24.2	69.1	81.0	+17.2	0.5	0.5	0
Kansas City	21.1	9.3	-55.9	3.7	3.3	-10.8	75.2	86.2	+14.6	0	1.2	-
Los Angeles	10.6	3.6	-66.0	10.4	6.1	-41.3	78.5	88.7	+13 0	0.5	1.6	+220.0
Louisville	22.9	14.5	-36.7	3.2	4.8	+50.0	41.9	57.3	+36.8	32.0	23.3	- 27.2

	FEDERAL			STATE			CITY			OTHER		
	1980	1990	80/90 % CHGE	1980	1990	80/90 %CHGE	1980	1990	80/90 %CHGE	1980	1990	80/90 %CHGE
Madison	4.1	7.1	+73.2	43.4	26.7	-38.0	52.4	66.1	+26.1	0.1	0.05	-50.0
Meridian	40.5	5.3	-86.9	1.5	1.2	-20.0	58.0	93.6	+61.4	-	-	-
Mesa	6.6	3.0	-54.5	14.7	24.2	+64.6	78.5	72.8	- 7.3	0.2	0.04	-80.0
Newark, CA	18.0	.03	-99.8	2.2	2.1	- 4.5	73.6	97.3	+32.2	6.3	.006	-99.9
Newark, NJ	19.7	2.7	-86.2	27.5	23.9	-13.1	33.9	49.2	+45.1	19.0	23.9	+25.8
North Miami	4.5	.02	-99.5	7.7	9.3	+20.8	86.9	88.4	+ 1.7	0.9	2.3	+155.5
Oak Park	2.9	1.1	-62.1	17.8	18.5	+ 3.9	79.2	80.0	+0.01	0.02	0.4	+1900
Ogden	25.1	7.7	-69.3	4.8	5.1	+ 6.3	68.8	84.8	+23.3	0.2	2.3	+2100
Pasadena	21.5	9.5	-55.8	13.8	8.3	-39.9	58.7	73.6	+25.4	6.0	9.3	+55.0
Phoenix	20.6	6.7	-67.5	20.3	23.2	+14.3	59.1	70.1	+18.6	-	-	-
Pocatello	7.3	4.8	-34.2	4.6	6.2	+34.8	82.8	86.3	+ 4.2	5.3	2.7	-49.1
Portland	19.3	2.4	-87.6	4.2	3.8	- 9.5	75.5	89.6	+18.7	1.0	4.1	+31.0
Rochester	31.5	15.3	-51.4	16.2	14.0	-13.6	51.7	68.8	+33.1	0.5	2.0	+300
San Diego	7.4	0.8	-89.1	8.4	3.0	-64.3	84.2	91.2	+ 8.3	-	-	-
Sandy City	11.1	1.3	-88.3	6.0	5.4	-10.0	82.9	93.4	+12.7	-	-	-
Sarasota	5.5	2.7	-50.9	7.0	17.8	+154.3	38.0	29.3	-22.9	49.6	50.2	+ 1.2
Savannah	27.7	3.9	-85.9	1.9	0.07	-96.3	68.7	94.8	+38.0	1.7	0.06	-96.5
St. Paul	21.6	8.1	-62.5	28.2	31.8	+12.8	45.0	58.1	+29.1	5.1	1.4	-72.5
St.Petersburg	4.0	0.3	-92.5	11.0	8.1	-26.4	84.3	89.6	+ 6.3	0.7	2.1	+200
Topeka	20.8	1.7	-91.8	5.6	8.6	+53.6	71.5	88.6	+23.9	2.0	1.1	-45.0
Williamsport	15.3	35.1	+129	9.9	5.9	-40.4	63.6	49.9	-21.5	1.2	9.2	-17.0
Winston-Salem	20.0	2.3	-88.5	12.8	9.0	-29.7	23.1	20.3	-12.0	43.9	68.5	+56.0
York	23.3	5.8	-75.1	5.8	3.1	-46.6	69.6	90.5	+30.0	-	-	-

TABLE III

CITY	NOMINAL % CHANGE BETWEEN 1980 & 1990 CITY BUDGET	REAL % CHANGE BETWEEN 1980 & 1990 CITY BUDGET
Akron	41.3	- 11.7
Albany	100.6	+ 25.4
Alexandria	135.8	+ 47.4
Allentown	55.2	- 3.0
Baltimore	17.0	- 26.9
Binghamton	101.1	+ 25.7
Birmingham	35.7	- 15.2
Boise	116.7	+ 35.4
Boston	61.1	+ 0.7
Charlotte	105.1	+ 28.2
Cheyenne	58.7	+ 0.8
Chicago	114.2	+ 36.7
Colorado Spgs.	106.9	+ 29.3
Cranston	68.2	+ 5.1
Decatur	62.1	+ 1.3
Detroit	27.1	- 20.5
Evanston	124.8	+ 40.2
Galveston	58.6	- 1.0
Glendale	204.4	+ 90.3
Houston	67.3	+ 4.6
Indianapolis	60.9	+ .5
Irvine	218.6	+ 99.1
Jackson	38.5	- 13.4
Jacksonville	56.6	- 2.1
Kansas City	59.1	- .6
Los Angeles	195.7	+ 84.8
Louisville	34.4	- 16.0
Madison	53.4	- 4.1
Meridian	4.6	- 34.6
Mesa	208.8	+ 93.0
Newark, CA	167.9	+ 67.4
Newark, NJ	70.5	+ 6.6
North Miami	72.2	+ 7.6
Oak Park	71.1	+ 7.0
Ogden	41.7	- 11.5
Pasadena	131.4	+ 44.6
Phoenix	158.8	+ 61.7
Pocatello	98.3	+ 23.6
Portland	100.5	+ 25.3
Rochester	52.9	- 4.4
San Diego	189.1	+ 80.7
Sandy City	187.8	+ 79.9
Sarasota	198.3	+ 86.5
Savannah	174.4	+ 71.4
St. Paul	78.9	+ 11.8
St. Petersburg	129.4	+ 43.4
Topeka	89.8	+ 16.6
Williamsport	-18.6	- 49.1
Winston-Salem	118.6	- 36.5
York	70.5	+ 6.5
TOTAL	+95.5	+22.4

CHAPTER II

IF YOUR CITY'S FEDERAL OR STATE REVENUES HAVE DECLINED, HOW HAVE YOU MADE UP THE DIFFERENCE?

When asked how they dealt with the fiscal shortfalls during the 1980-1990 period, cities were asked whether they raised taxes, cut services, and/or reduced the number of city employees. Twenty-four cities or 48 percent of those responding indicated that they cut services. Thirty-six cities or 72 percent of those responding indicated that they raised taxes, and thirty-four cities or 68 percent of those responding indicated that they reduced the number of city employees.

Table IV lists the cities responding and the option(s) they exercised in making up the corresponding fiscal shortfalls. Column 4 includes other sources of revenue-raising measures undertaken by cities, most notably increasing or implementing user fees.

Table IV shows that of those cities responding to the survey, twenty-one, or 42 percent, both raised taxes and cut services. This table also shows that sixteen cities or 32 percent raised taxes, cut services, reduced city employees and raised revenues through other revenue measures.

Table V documents the list of options mentioned under other revenue sources. Table V shows the other revenue sources listed to counteract the fiscal shortfalls experienced by cities over the past decade. As can be seen from Table V, 20 cities or 40% of those responding, reported that they increased user fees. Other categories in which responses were made are listed as well in Table V.

OPTIONS EMPLOYED BY CITIES TO RESPOND TO FISCAL SHORTFALLS

TABLE IV

	CUT SERVICES	RAISED TAXES	REDUCED CITY EMP.	OTHER
Akron	x	x	x	x
Albany				x
Alexandria				x
Allentown	x	x	x	x
Baltimore	x	x	x	x
Binghamton		x	x	
Birmingham		x		x
Boise				x
Boston				x
Charlotte				x
Cheyenne			x	x
Chicago		x	x	x
Colorado Spgs.				x
Cranston		x	x	x
Decatur				x
Detroit	x	x	x	x
Evanston		x	x	x
Galveston		x	x	x
Glendale	x	x	x	x
Houston	x	x	x	x
Indianapolis		x	x	x
Irvine		x		x
Jackson	x	x	x	x
Jacksonville	x	x	x	x
Kansas City		x	x	x
Los Angeles		x		x
Louisville			x	x
Madison	x	x		
Meridian		x	x	x
Mesa	x	x	x	x
Newark, NJ	x	x	x	
Newark, CA	x	x	x	
No. Miami				x
Oak Park			x	
Ogden	x		x	
Pasadena		x		x
Phoenix	x	x	x	x
Pocatello	x	x	x	x
Portland	x		x	x
Rochester	x	x	x	
San Diego	x	x		x
Sandy City	x		x	
Sarsota	x	x	x	x
Savannah		x	x	x
St. Petersburg	x	x	x	x
St. Paul	x	x		x
Topeka		x	x	
Williamsport		x		
Winston-Salem	x	x	x	x
York	x	x	x	x

TABLE V

TYPES OF OTHER REVENUE SOURCES

User Fees

Akron, OH	Fees
Baltimore, MD	Expand license fee base and new service charges
Charlotte, NC	User fees
Chicago, IL	Increased fees for services
Cranston, RI	User fees and impact fees
Decatur, IL	Increased user fees
Glendale, AZ	User Fee (garbage)
Houston, TX	Zoo admission fee, fire inspection permit fee, increased ambulance fees, library fines and miscellaneous library charges
Jackson, MS	Increased existing fees and established new user fees
Los Angeles, CA	Raised fees
Louisville, KY	Increased insurance premium tax rate
Madison, WI	Ambulance fees
Meridian, MS	Increased fees
Mesa, AZ	User fees
N. Miami, FL	New fees
Phoenix, AZ	Increased emphasis on user fee cost recovery
Sarasota, FL	Increased fees for services
St. Paul, MN	Fees
St. Petersburg,FL	Other user fees
Winston-Salem, NC	Increased user fees

Utility

Chicago, IL	Gas utility tax
Irvine, CA	Utility user tax
Pasadena, CA	Utility users fee and utility contribution
Pocatello, ID	Street utility fee
Portland, OR	Raised utility license fee 3-5 percent investor owned

Gas

Chicago, IL	Vehicle fuel tax
Glendale, AZ	State gas tax
Sarasota, FL	Gas

TABLE V (cont'd)

Sales

Charlotte, NC	Sales tax
Chicago, IL	Sales tax
Decatur, IL	Implemented Sales Tax
Kansas City, MO	Sales tax for capital improvements
Sarasota, FL	Local option sales tax

Hotel/Motel

Glendale, AZ	Hotel tax
Decatur, IL	Hotel/Motel tax

Capital

Galveston, TX	Found alternative funding to capital projects
Meridian, MS	Sold bonds for capital items

General Fund/General Revenue

Charlotte, NC	General Fund
Jacksonville, FL	General Fund/ General Revenues
Meridian, MS	Used Fund Balance

Improved Government Efficiency Measures

Alexandria, VA	New commercial growth in city expanded city's real property tax base
Allentown, PA	Citizens contributions
Baltimore, MD	Transferred operation to state
Baltimore, MD	Privatized
Baltimore, MD	Consolidated certain city operations
Baltimore, MD	Received new state aid
Colorado Spgs. CO	Federal decline offset by state increase
Decatur, IL	State income-tax
Evanston, IL	Development of research park in cooperation with university to expand tax base
Louisville, KY	Implemented more cost effective operations
San Diego, CA	Reduction in non-essential services
York, PA	Privatization

Real Estate

Chicago, IL	real property transfer
Evanston, IL	sell properties

TABLE V (cont'd)

Motor Vehicle	
Charlotte, NC	Motor Vehicle
Chicago, IL	Parking tax
Chicago, IL	Auto Rental tax
Sin Taxes	
Baltimore, MD	Beverage container tax
Chicago, IL	Liquor tax
Chicago, IL	Amusement tax
Chicago, IL	Off-track betting
Chicago, IL	Cigarette tax

TABLE VI

CITIES THAT INCREASED LOCAL TAXES IN THE LAST YEAR

YES	NO
Akron, OH	Albany, NY
Allentown, PA	Alexandria, VA
Baltimore, MD	Birmingham, AL
Binghamton, NY	Charlotte, NC
Boise, ID	Cheyenne, WY
Boston, MA	Chicago, IL
Colorado Springs, CO	Detroit, MI
Cranston, RI	Galveston, TX
Decatur, IL	Glendale, AZ
Evanston, IL	Houston, TX
Jackson, MS	Indianapolis, IN
Jacksonville, FL	Irvine, CA
Kansas City, MO	Louisville, KY
Los Angeles, CA	North Miami, FL
Madison, WI	Oak Park, MI
Meridian, MS	Ogden, UT
Mesa, AZ	Phoenix, AZ
Newark, CA	Portland, OR
Newark, NJ	Sandy City, UT
Pasadena, CA	Topeka, KS
Pocatello, ID	Williamsport, PA
Rochester, NY	York, PA
San Diego, CA	
Sarasota, FL	
Savannah, GA	
St. Petersburg, FL	
St.Paul, MN	
Winston-Salem, NC	

CHAPTER III

HAVE YOU INCREASED LOCAL TAXES IN THE LAST YEAR?

When asked if the city had increased local taxes in the last year twenty-eight, or 56 percent of those responding said that they had while twenty-two, or 44 percent of those responding said that they had not. (Table VI)

Table VII outlines the types of local taxes raised over the past year by those cities responding to the survey.

Additionally, cities were asked whether their local tax rates were at the maximum allowable amount under state law. In response to this question, 26 or 52 percent responded yes, while 22 responded no. The responses to this question are found in Table VIII.

TABLE VII

Advolorem Tax

Jacksonville, FL
Sarasota, FL
St. Petersburg, FL
St. Paul, MN

Earned Income Tax

Allentown, PA

Pension Fund

Jackson, MS	Disability and Relief Pension Fund

Hotel/Motel Tax

Baltimore, MD	Hotel tax
Decatur, IL	Hotel/Motel tax
Los Angeles, CA	Transient Occupancy tax
Mesa, AZ	Transient Occupancy taxes
Newark, CA	Transient Occupancy taxes
Savannah, GA	Special tourism (Hotel/Motel tax)

Property Tax

Akron, OH
Binghamton, NY
Boise, ID
Boston, MA
Newark, NJ
Colorado Spgs. CO
Kansas City, MO
Madison, WI
Pocatello, ID
Rochester, NY
Savannah, GA
St. Paul, MN
Winston-Salem, NC

Fees

Allentown, PA	Garbage fee
Birmingham, AL	Increased fees on items such as permits etc.
Cranston, RI	User fees
Evanston, IL	Long-term care and food inspection fees
Mesa, AZ	Renewal fees for sales tax licenses

TABLE VII (cont'd)

Utility

Allentown, PA	Water and sewage rates
Mesa, AZ	Utility rate
Newark, NJ	Sewer rates

Business

Los Angeles, CA	Business tax
Newark, CA	Business license
San Diego, CA	Business license
Savannah, GA	Business and alcohol license

Parking Tax

Baltimore, MD	
Evanston, IL	
Los Angeles, CA	(Parking user tax)

Other

Evanston, IL	Undertakers tax
Evanston, IL	Admissions amusement and beverage container taxes
Savannah, GA	Cable T.V. tax
Meridian, MS	Debt service
San Diego, CA	Rental unit tax
Kansas City, MO	Cigarette tax

TABLE VIII

ARE YOUR LOCAL TAX RATES AT MAXIMUM ALLOWABLE AMOUNT UNDER STATE LAW?

Yes

Alexandria, VA
Allentown, PA
Baltimore, MD
Binghamton, NY
Boise, ID
Boston, MA
Cheyenne, WY
Chicago, IL
Detroit, MI
Houston, TX
Irvine, CA
Jacksonville, FL
Kansas City, MO
Los Angeles, CA
Meridian, MS
N. Miami, FL
Newark, NJ
Oak Park, MI
Pasadena, CA
Phoenix, AZ
Portland, OR
Sandy City, UT
Savannah, GA
St. Petersburg, FL
St. Paul, MN
Topeka, KS

No

Akron, OH
Albany, NY
Birmingham, AL
Charlotte, NC
Colorado Springs, CO
Cranston, RI
Galveston, TX
Glendale, AZ
Houston, TX
Indianapolis, IN
Jackson, MS
Jacksonville, FL
Madison, WI
Mesa, AZ
Ogden, UT
Pocatello, ID
Rochester, NY
San Diego, CA
Sarasota, FL
Williamsport, PA
Winston-Salem, NC
York, PA

Not Applicable

Decatur, IL
Evanston, IL

CHAPTER IV

IN WHAT AREAS HAVE THE 1986 TAX REFORM ACT RESTRICTIONS ON PRIVATE-ACTIVITY BONDS HAD THE MOST IMPACT ON YOUR CITY?

To compound the loss of federal aid during the 1980's, cities were also faced with federal restrictions on their ability to issue tax-exempt bonds. The Tax Reform Act of 1986 placed restrictions on the issuance of private-activity bonds which has placed hardships on city economic development efforts.

Table IX indicates the types of activities which have been affected by the Tax Reform Act restrictions.

TABLE IX

In what areas have the 1986 Tax Reform Act restrictions on private-activity bonds had the most impact on your city?

Arbitrage

Cranston, RI	Tighter limits on arbitrage
Louisville, KY	Complicated arbitrage rebate reporting requirements
Newark, NJ	Arbitrage rules restricted usage of interest
Allentown, PA	Limitations on amount of arbitrage allowable

Bonds

Cranston, RI	Prohibition of advanced refunding (refinancing of bonds by the proceeds of a new issue prior to the date of outstanding securities are due
St. Petersburg,FL	Cost complexity of accounting bond issues

Economic development

Cheyenne, WY	Economic development
Jackson, MS	Limited some industries', albeit uncertain which ones, ability to expand
Madison, WI	Economic development
San Diego, CA	Economic development
Savannah, GA	Reduced economic development
St. Paul, MN	Hurt older city in competition with suburbs to keep industry, lose built-up industry in need of expansion to suburbs
St. Petersburg, FL	Downtown redevelopment (especially parking garages public/private usage
Williamsport, PA	Substantial increase in economic development in partnership with private sector

Parking Garages

Charlotte, NC	Parking decks
Rochester, NY	Parking garages must be now financed through other means because use to be operated by private companies

TABLE IX (cont'd)

Industrial Revenue Bonds

Glendale, AZ	Some difficulty obtaining IRB funding for industrial downturn residential uses
Louisville, KY	Elimination of IRBs for commercial development

Public Arenas

Charlotte, NC	Football stadium
Charlotte, NC	Convention Center
Phoenix, AZ	Sports Stadium

Other

Binghamton, NY	Increased cost of issuance and loss of legal arbitrative earnings
Birmingham, AL	Inability to earn interest on finds to be used for other projects and restrictions on time of expenditures
Boston, MA	Housing, particularly first time buyers
Louisville, KY	Alternative minimum tax requirements and resultant increasing cost of borrowings
Winston-Salem, NC	Ability to participate in mixed-use projects

CHAPTER V

WHAT ARE THE FIVE FEDERAL MANDATES WHICH HAVE THE GREATEST COST IMPLICATIONS FOR YOUR CITY GOVERNMENT'S BUDGET?

When asked which federal mandates have had the greatest cost implications on the city, clearly thirty-three cities representing 66 percent of those responding to the survey, cited environmental mandates. Included in the environmental category were responses dealing with waste, landfills, sewers, and leaking underground storage tanks. Under the category of labor issues responses on the following issues were included: Fair Labor Standards Act, Americans with Disability Act, Davis-Bacon, Social Security and Medicare mandates, Occupational Safety and Health Administration, and the Job Training Partnership Act. Thirty cities, comprising 60 percent of those responding listed mandates in the area of labor issues as having the greatest cost implications for their cities.

Eleven cities, or 22 percent of those responding, cited public finance restrictions such as arbitrage rebate regulations as having the greatest cost implications for their cities and six cities, or 12 percent, said that Community Development Block Grant reductions and the loss of General Revenue Sharing have had the greatest impact on their cities. Ten cities listed items which have been categorized as others, these include employee compensation and benefits and the 1990 census undercount.

Table X is a list of the federal mandates listed by cities as having the greatest cost implications on the city's budget.

TABLE X

ENVIRONMENTAL / INFRASTRUCTURE

Akron, OH	Solid waste
Akron, OH	Clean Air Act
Akron, OH	Clean Water Act
Alexandria, VA	Environmental regulations
Allentown, PA	Clean Water Act
Allentown, PA	Clean Air Act
Baltimore, MD	Underground storage tanks requirements
Baltimore, MD	Solid Waste - landfill design/construction requirements
Baltimore, MD	Asbestos Removal
Birmingham, AL	Stormwater runoff
Birmingham, AL	Wetlands regulations
Birmingham, AL	Landfill regulation
Birmingham, AL	Underground storage tanks
Boise, ID	Underground storage tanks
Boise, ID	Clean Water Act, NPDES and other requirements
Boise, ID	Clean Air Act - buses and other transportation
Boston, MA	Clean Water Act
Boston, MA	Clean Air Act
Chicago, IL	Water Service regulations - lead pipe connections
Chicago, IL	Combined sewer overflow regulations
Chicago, IL	Clean Air Act
Colorado Spgs. CO	Stormwater discharge
Colorado Spgs. CO	EPA mandates
Cranston, RI	Wastewater
Decatur, IL	Clean Water Act - sludge disposal and effluent standards
Detroit, MI	Clean Air Act of 1990
Glendale, AZ	EPA
Houston, TX	Solid waste management standards
Houston, TX	Stormwater Runoff Standards
Indianapolis, IN	EPA - Air Quality
Indianapolis, IN	EPA water quality
Indianapolis, IN	EPA storm/sewer separation planning
Jackson, MS	Sludge regulations
Jackson, MS	Stormwater
Jackson, MS	Subpart D RCRA (landfill)
Jackson, MS	Safe Drinking Water Act
Jackson, MS	Clean Water Act
Jacksonville, FL	Wastewater
Jacksonville, FL	Clean Air Act
Jacksonville, FL	Landfill clean-up
Jacksonville, FL	Clean Water Act

TABLE X (cont'd)

ENVIRONMENTAL / INFRASTRUCTURE

Kansas City, MO	Air Quality
Kansas City, MO	Hazardous waste disposal
Kansas City, MO	Refuse disposal
Los Angeles, CA	Wastewater program
Los Angeles, CA	Clean Air Act
Los Angeles, CA	Stormwater pollution control
Louisville, KY	Clean Air Act regulations
Meridian, MS	Landfill requirements
Meridian, MS	Water and sewer requirements
Mesa, AZ	Water quality requirements
Mesa, AZ	Other environmental requirements excluding water quality standards
Newark, NJ	Prohibition on Ocean Dumping - sludge disposal
Newark, NJ	RCRA
Newark, NJ	Superfund - disposal and clean-up of hazardous waste
North Miami, FL	EPA legislation
Ogden, UT	Fuel storage tank regulations
Pasadena, CA	EPA
Pasadena, CA	Clean Water Act
Phoenix, AZ	Clean Air Act
Phoenix, AZ	Clean Water Act
Phoenix, AZ	RCRA
Phoenix, AZ	Comprehensive Environmental Response Compensation and Liability Act (CERLLA)
Phoenix,AZ	SDWA
San Diego, CA	Clean Water Act
San Diego, CA	EPA's Clean Water Mandate
Savannah, GA	Clean Water Act
Savannah, GA	Lining landfills
St. Paul, MN	Clean Water Act - sewer separations
St. Petersburg, FL	Stormwater quality
St. Petersburg, FL	Clear Air/Asbestos Removal
St. Petersburg, FL	Toxic waste disposal
Topeka, KS	EPA regulation for Clean Water
York, PA	Resource Conservation and Recovery Act (RCRA)
York, PA	C.R.C.L.A. - superfund regulations
York, PA	Clean Water Act

LABOR ISSUES

Akron, OH	Medicare payments
Alexandria, VA	Section 504 of 1973 Rehabilitation Act (handicapped access)
Allentown, PA	Mandated social security tax
Boise, ID	Contracting requirements such as DBA
Charlotte, NC	FLSA
Charlotte, NC	Handicapped compliance

TABLE X (cont'd)

LABOR ISSUES

Decatur, IL	Wheelchair lifts on mass transit buses
Decatur, IL	DBA for prevailing wages
Detroit, MI	1990 Disability Act
Detroit, MI	Federal mandates covering all local employees under medicaid
Detroit, MI	FLSA requirements
Evanston, IL	Davis-Bacon Prevailing Wage Act
Glendale, AZ	Americans with Disabilities Act
Glendale, AZ	DBA requirements
Indianapolis, IN	Medicare coverage
Irvine, CA	Medicare requirements
Irvine, CA	Change in social security payments
Kansas City, MO	Low medicare/medicaid reimbursements
Los Angeles, CA	Medicare
Los Angeles, CA	FLSA
Louisville, KY	Mandated social security coverage
Madison, WI	FLSA
Madison, WI	Physical Accessibility - 504
Madison, WI	FICA
Meridian, MS	FLSA
Mesa, AZ	Federal OSHA requirements
Mesa, AZ	FLSA
Mesa, AZ	OSHA requirements
Mesa, AZ	Handicap accessibility
Newark, CA	Regulations on Handicap Accessibility
Newark, CA	FLSA
Newark, CA	Medicare
Newark, CA	Social security
Oak Park, MI	Elimination of Federal Funds for on site job training (CETA)
Ogden, UT	Additional restrictions on federal funds
Pasadena, CA	Social Security
Pocatello, ID	Bid laws for public works projects DBA
Rochester, NY	Social security contributions requirements
Rochester, NY	Occupational safety regulations
Sarasota, FL	Medicare/aid for civil service employees
Sarasota, FL	FLSA
Sarasota, FL	Mandatory medicare insurance paperwork
Savannah, GA	FLSA
Savannah, GA	Social Security Act and amendments
St. Petersburg, FL	Handicapped Accessibility
St. Paul, MN	FICA/medicare changes
Topeka, KS	FLSA
Winston-Salem	JTPA
York, PA	Davis Bacon law

TABLE X (cont'd)

PUBLIC FINANCE

Akron, OH	Rebate of G.O. bond arbitrage
Decatur, IL	COBRA coverage for former employees and dependents
Evanston, IL	Arbitrage restrictions on municipal bonds
Houston, TX	Arbitrage rebate requirements
Jacksonville, FL	Arbitrage regulations
Jacksonville, FL	COBRA
Louisville, KY	Arbitrage rebate regulations
Ogden, UT	Arbitrage requirements
Pasadena, CA	Audits
Savannah, GA	COBRA
St. Paul, MN	Arbitrage regulations
York, PA	Single Audit Act

COMMUNITY DEVELOPMENT

Cheyenne, WY	General Revenue Sharing (GRS)
Cheyenne, WY	CDGB
Cranston, RI	Cut back in CDGB administrative cost
Jacksonville, FL	Loss of federal revenue sharing
Oak Park, MI	Cutback of monies for CDBG projects in areas designed to improve community standards
Oak Park,MI	Elimination of federal revenue sharing
Williamsport, PA	Elimination of GRS funds
Williamsport, PA	Reduction of CDGB entitlement funds
Winston-Salem, NC	GRS
Winston-Salem, NC	CDGB

OTHERS

Colorado Spgs. CO	Transit
Decatur, IL	Federal Hazard Communication Standards districts
Evanston, IL	Cost of the savings and loan industry bailout funds housing increases cost of debt service
Irvine, CA	Shift of financial burden to state
Madison, WI	MBE requirements
Oak Park, MI	Elimination of urban grants to business
Oak Park, MI	Cut back for monies for low and moderate income of capital equipment for mass transit

TABLE X (cont'd)

OTHERS

Ogden, UT	Federal defense budget restriction on federal
Ogden, UT	Federal redevelopment funding reductions private-activity bonds which substantially redevelopment of commercial and industrial
St.Paul, MN	Matching funds requirements - floodwalls
Topeka, KS	Revision of minimum wage laws
Williamsport, PA	Elimination of Urban Development Grant program
Williamsport, PA	Elimination of federal funds for acquisition of capital equipment for mass transit
Williamsport,PA	Restrictions imposed 1986 tax-reform Act on private activity bonds which substantially increases cost of debt service

CHAPTER VI

TOP CITY PRIORITIES IN 1990

When listing their top priorities, twenty-nine cities, or 58 percent of those responding, cited public safety issues, including drugs, police, and fire issues. Twenty-eight cities, or 56 percent said economic development was one of their top priorities. Twenty-six cities, or 52 percent, listed infrastructure in their list of top priorities. Twenty-four cities, or 48 percent, cited public finance issues in their list of top priorities. Twenty-one cities, or 42 percent of those responding, cited community/neighborhood development in their list of top priorities. Included in this category were responses citing quality of life issues.

Eighteen cities, or 36 percent said environmental issues were their top priority. This category included recycling responses.

Table XI shows the list of city priorities listed by cities for 1990.

Fifteen cities, or 30 percent cited social services in their list of top priorities. Nine cities, or 18 percent cited education issues, eight cities, or 16 percent responded that intergovernmental cooperation was their top priority. Thirteen cities, or 26 percent, have been placed in the others category which includes issues like youth programs and labor issues.

TABLE XI

Public Safety (Public Safety)

Akron, OH	Drug law enforcement
Albany, NY	Combatting drug abuse
Albany, NY	Public Safety
Alexandria, VA	Construction/full operating cost for homeless shelter/substance abuse center
Alexandria, VA	Continue efforts in coping with drug problems
Alexandria, VA	Anti-Drug enforcement efforts (public safety)
Allentown, PA	War on Drugs
Allentown, PA	Crime
Allentown, PA	Fire, emergency medical services and public
Baltimore, MD	Drug abuse, education, treatment and prevention
Baltimore, MD	Fire services
Baltimore, MD	Police protection
Binghamton, NY	Public safety-drug control
Boise, ID	Public Safety
Boston, MA	Public Safety/Anti-Drug Program
Charlotte, NC	Crime and drugs
Chicago, IL	Drug abuse education, prevention and treatment
Detroit, MI	"Boot" camp
Evanston, IL	Continued attention to public safety funding
Galveston, TX	Fire department
Galveston, TX	Police department
Glendale, AZ	Public safety (especially burglaries, drugs and gangs)
Houston, TX	Control of illegal drugs
Indianapolis, IN	Public Safety
Jackson, MS	Law enforcement
Jackson, MS	Police protection
Jackson, MS	Jail facilities
Los Angeles, CA	Improve paramedic/ambulance service
Los Angeles, CA	Increase police protection
N. Miami, FL	Continue police and community prevention
Newark, NJ	Continued of upgrading of police levels and
Oak Park, MI	Reduction of crime (especially in area of substance abuse)
Rochester, NY	Anti-drug programs
San Diego, CA	Meet public safety needs
Sarasota, FL	Public Safety
St. Petersburg, FL	Enhance public safety operations
St. Paul, MN	Management of drug related crimes
Topeka, KS	Crime
Williamsport, PA	Handle influx of people recovering from
Winston-Salem, NC	Public Safety

TABLE XI (cont'd)

Economic Development

Akron, OH	Economic development
Birmingham, AL	Open 7500 acre mixed use development
Boston, MA	Economic development
Charlotte, NC	Economic development
Colorado Spgs. CO	Economic development
Cranston, RI	Economic development
Detroit, MI	Enhanced Detroit-Canadian trade as result of U.S.- Canadian trade agreement
Evanston, IL	Economic development
Glendale, AZ	Economic development
Houston, TX	Economic development
Indianapolis, IN	Economic development
Jacksonville, FL	Economic development
Louisville, KY	Enterprise zone development
Meridian, MS	Downtown development
Mesa, AZ	Promote economic development
Oak Park, MI	Expansion of business and industrial facilities
Ogden, UT	Increased economic development
Phoenix, AZ	Economic viability
Pocatello, ID	Economic development/business expansion
Rochester, NY	Economic development
Sarasota, FL	Downtown redevelopment
Savannah, GA	Revitalization of downtown area
St. Paul, MN	Economic growth
St. Petersburg, FL	Strengthen economic vitality and redevelopment
Topeka, KS	Economic development
Williamsport, PA	Economic development to provide employment
Winston-Salem, NC	Economic development
York, PA	Complete City's Industrial Park

Community/Neighborhood Development

Albany, NY	Affordable housing
Allentown, PA	Quality of Life services
Baltimore, MD	Low and moderate income assisted housing (including homelessness)
Binghamton, NY	Housing
Birmingham, AL	Begin new residential programs for low and moderate income families
Boise, ID	Quality of life maintenance and improvements
Chicago, IL	Affordable housing funding
Decatur, IL	Establish neighborhood improvement strategy
Detroit, MI	Single family housing
Houston, TX	Quality of life
N.Miami, FL	Commence downtown art redevelopment program
Newark, NJ	Provision of low-income/affordable housing
Ogden, UT	Neighborhood rehabilitation

TABLE XI (cont'd)

Community/Neighborhood Development

Pasadena, CA	Address and maintain affordable housing
Pasadena, CA	Preserve and build elements that enhance the quality of life
Phoenix, AZ	Neighborhood/security
Phoenix, AZ	Community image and pride
San Diego, CA	Quality of life
Sarasota, FL	Community livability/quality of life
Savannah, GA	Homeless problem
Savannah, GA	Affordable housing
Savannah, GA	Livability and quality of neighborhoods
Savannah, GA	Removal of dilapidated buildings
St. Petersburg, FL	Maintain neighborhood identity and vitality
Williamsport, PA	Provide low and moderate income oriented assistance programs for housing and low-interest loans for housing rehabilitation
Williamsport, PA	Comprehensive code enforcement program
Winston-Salem, NC	Affordable housing

Infrastructure

Binghamton, NY	Street maintenance
Boise, ID	Repair and maintenance of infrastructure
Chicago, IL	New airport site in Chicago
Colorado Spgs. CO	Transportation and traffic improvements
Colorado Spgs. CO	Airport construction
Cranston, RI	Extension of sewers
Detroit, MI	Development of light rail system
Detroit, MI	Airport expansion
Evanston, IL	Construction of library
Evanston, IL	Improvements to sewer system
Galveston, TX	Street reconstruction
Glendale, AZ	Traffic (congestion and accidents)
Indianapolis, IN	Transportation
Irvine, CA	Resolution of transportation issues
Jackson, MS	Infrastructure
Kansas City, MO	Capital improvements
Los Angeles, CA	Reduce traffic congestion
Louisville, KY	Standiford Field airport expansion
Meridian, MS	Major capital improvement projects
Mesa, AZ	Work toward freeway and road improvements
Newark, CA	Establish capital improvement plan
Oak Park, MI	Completion of improvement of city-wide streets
Ogden, UT	Better freeway access to the city of Ogden
Pasadena, CA	Complete city's aggressive infrastructure programs
Pocatello, ID	Street repair and maintenance
Pocatello, ID	Downtown improvements: infrastructure, building repair and renovation

Infrastructure

Rochester, NY	Infrastructure maintenance
Sandy City, UT	Provide more funding for capital projects
St. Paul	Sewer separation/street reconstruction
Topeka, KS	Transportation system

Social Service

Akron, OH	Providing satisfactory public service without overtaxing citizens
Akron	Curbing spiraling health-care costs
Boise, ID	Meeting Boise's social service needs
Boston, MA	Maternal and child health
Indianapolis, IN	Social Programs
Kansas City, MO	Improving selected services
Madison, WI	Improve basic services
Madison, WI	Target special assistance to low-income families
Newark, CA	Maintain acceptable service levels
Newark, NJ	Expansion of health and counseling services for the AIDS crisis
Oak Park, MI	Maintaining high level of city services
Pasadena, CA	Develop human services strategy and the city's role in that strategy
Pocatello, ID	Maintain services at current levels
San Diego, CA	Maintain other essential city services
Sandy City, UT	Maintain service levels
St. Petersburg, FL	Provide essential public services
York, PA	Maintain services with little or no tax increase

Education

Alexandria, VA	Quality of public education
Baltimore, MD	Pre-K, elementary and secondary education
Charlotte, NC	Education
Cranston, RI	New schools
Cranston, RI	Education
Glendale, AZ	Education
N. Miami, FL	Enhance public school system and reduce overcrowding
Newark, CA	Implementation of policies and programs to improve education
Phoenix, AZ	Education

TABLE XI (cont'd)

Public Finance

Albany, NY	Resource management
Alexandria, VA	Residential real property tax relief base
Binghamton, NY	Balanced budget in light of diminished revenue
Birmingham, AL	Continue partnerships with other local governments in dealing with issues such as transportation and zoning
Boise, ID	Planning for future fiscal and community stability
Chicago, IL	Public/private partnerships to improve
Decatur, IL	Create housing and economic organization development efficiency and cost effectiveness
Evanston, IL	Identifying ongoing revenues and expenditure
Evanston, IL	Facing issue of higher expenditure growth than fee-based services governments in dealing with issues such as growth
Houston, TX	On-going management improvement incoming revenues
Irvine, CA	Shift of burden by feds and state to cities
Irvine, CA	Dealing with slowdown in economy and reduced
Jackson, MS	City reorganization
Jackson, MS	Fair taxation issues between city and county
Kansas City	Bond issues
Kansas City, MO	Increase in cash reserves
Kansas City, MO	Raising revenue
Madison, WI	Review alternative revenue sources
Madison, WI	Reduce amount of long-term debt
Madison, WI	Increase revenue sources from state
Meridian, MS	Local sales tax option
Meridian, MS	Consolidation of services
Mesa, AZ	Build foundation for long-term fiscal health
Newark, CA	Protect operating reserves
Newark, CA	More efficient use of resources (DS check if repeated this statement elsewhere)
Pasadena, CA	Ensure a sound financial base for the city
Rochester, NY	Budget/tax restraint
San Diego, CA	Achieve maximum cost recovery in provision of fee based service
St. Paul, MN	Cost containment
Topeka, KS	Broaden tax and revenue base
Topeka, KS	City-county cooperation
Williamsport, PA	Hold line on local taxes
Winston-Salem, NC	Budget and finance
York, PA	Develop strategic plan to address the 1990's
York, PA	Encourage state to legislate helpful tax reform measures

TABLE XI (cont'd)

Environment

Akron, OH	Solid waste management
Albany, NY	Solid waste management
Binghamton, NY	Recycling
Colorado Spgs. CO	Park trails development
Cranston, RI	Open space
Decatur, IL	Continue work on recycling and solid waste
Decatur, IL	Complete water wellfield and begin lake dredging project
Glendale, AZ	Environment
Indianapolis, IN	Environment
Irvine, CA	Conservation of open space
Los Angeles, CA	Begin implementation of stormwater pollution control program
Los Angeles, CA	Begin implementation of recycling program
Louisville, KY	Downtown waterfront redevelopment
Louisville, KY	Phase-in curbside recycling program
Louisville, KY	Operation Brightside - citywide clean-up and beautification
Mesa, AZ	Develop solid waste management/recycling action
N. Miami, FL	Increase recycling efforts in community
N. Miami, FL	Resolution of munisport issue with Superfund requirements
Ogden, UT	Improve park facilities
Phoenix, AZ	Environment
Sarasota, FL	Waterfront protection and improvement
Sarasota, FL	Environment protection and enhancement
St. Petersburg, FL	Protect and enhance waterfront and open spaces
Winston-Salem, NC	Environment protection including waste removal

Others

Charlotte, NC	Public resources
Chicago, IL	Zebra mussels
Decatur, IL	Begin GIS application,development and programming
Houston, TX	Employee compensation and improved productivity
Newark, NJ	Creation of additional recreational opportunities for youth
Ogden, UT	Better programs for our youth
Pocatello, ID	To fund new salary/benefit program
York, PA	Determine extent of 1990 census error and refute if warranted

TABLE XII

CITIES AND POPULATIONS RESPONDING TO SURVEY

Of the 50 cities responding to the survey, seven cities had populations between 30,000 and 50,000. Ten cities represented populations of between 100,000 and 200,000. Thirteen cities had populations of between 200,000 and 500,000 and ten cities had populations of 500,000 and above. Half of those cities responding with populations above 500,000 represented cities with populations above 1 million.

CITY	POPULATION
Akron, OH	222,060
Albany, NY	97,020
Alexandria, VA	107,800
Allentown, PA	104,360
Baltimore, MD	752,800
Binghamton, NY	52,910
Birmingham, AL	277,510
Boise, ID	108,390
Boston, MA	573,600
Charlotte, NC	352,070
Cheyenne, WY	53,960
Chicago, IL	3,021,912
Colorado Spgs. CO	272,660
Cranston, RI	73,760
Decatur, IL	90,360
Detroit, MI	1,200,000
Evanston, IL	71,570
Galveston, TX	60,210
Glendale, AZ	125,820
Houston, TX	1,729,720
Indianapolis, IN	719,820
Irvine, CA	104,781
Jackson, MS	208,420
Jacksonville, FL	658,437
Kansas City, MO	441,170
Los Angeles, CA	3,310,057
Louisville, KY	286,470
Madison, WI	175,830
Meridian, MS	42,970
Mesa, AZ	300,317
Newark, CA	37,420
Newark, NJ	316,240
North Miami, FL	42,650
Oak Park, MI	31,120
Ogden, UT	67,490
Pasadena, CA	129,900
Phoenix, AZ	981,846
Pocatello, ID	44,420
Portland, OR	432,175
Rochester, NY	235,970
San Diego, CA	1,086,592
Sandy City, UT	67,430
Sarasota, FL	51,500
Savannah, GA	146,800
St. Paul, MN	263,680
St. Petersburg, FL	239,410
Topeka, KS	118,580
Williamsport, PA	31,710
Winston-Salem, NC	148,080
York, PA	44,430

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Baton Rouge, La.

February 27, 1991

The Honorable James Sasser, Chairman
Committee on the Budget
United States Senate
363 Russell Senate Office Building
Washington, D.C. 20510-6100

Dear Mr. Chairman:

On behalf of the American Federation of State, County and Municipal Employees (AFSCME), which represents more than 1.3 million workers across the nation, we urge you to oppose the proposed Bush Block Grant program.

President Bush unveiled, in the State of the Union address, his major domestic policy initiative, a mega-block grant of federal programs to the states. Subsequently, the Bush budget presented a list of programs whose Fiscal Year (FY) 1991 outlays total $20.8 billion and recommends that the Governors, the Administration and the Congress select about $15 billion of these for inclusion in a block grant to be administered by the states. Under the proposal, the Governors could use the proposed block grant funds for their original purpose or for new ones.

The list of federal programs which the Administration is offering to the Governors for their choosing is noteworthy in three major respects. First, about $10 billion worth of these programs do not flow to state capitols, but, go directly to cities. This includes the Community Development Block Grant (CDBG), subsidized and public housing programs, law enforcement and infrastructure construction grants. States would be getting new funds with no strings attached while the cities would be losing billions of dollars in vital assistance. At the same time the cities, many of which are facing a severe financial crisis because of the recession and past reductions in federal aid, would still be faced with fulfilling the unmet needs of those who have depended on these services.

Second, approximately 80 percent of the funds are dedicated to low income programs. The Administration's proposal could pose a major risk to poor families because the Governors, confronted with severe budgetary problems of their own, could use some, most, or all of the $15 billion for other purposes. Many states have already frozen AFDC benefits and sharply reduced a litany of social service programs.

And thirdly, the history of block grant programs is that after the grant has been created the funding, from the federal government begins to erode. In this case, President Bush is not even waiting until next year, but, is proposing lower funding for some of the programs already. The President is seeking, for example, a funding level for CDBG for FY 1992 that is $280 million less than FY 1991.

Our union strongly opposes the proposed state block grant. Many AFSCME workers are employed in cities with funds from CDBG, housing, EPA construction grants and other programs which would be turned over to the states if this plan were adopted. This loss of funding could result in layoffs and furloughs for our members while, at the same time, sharply reducing services to the community. Also, if history repeats itself, the states will see less and less money for this block grant in future years. Even now the Administration is only discussing funding for the next five years -- beyond 1997 there are no commitments. Each of the programs on the Administration's list has a constituency which now supports it. Lumped into a general block grant, they would lose that support. This could accelerate the decline in federal funding. States do need more federal money; but, it should be provided through specific programs and not at the expense of the cities.

There is a domestic crisis in the nation, but the block grant proposal does not respond to the needs of cities and states, and most certainly does not respond to the needs of working Americans and their families. What is desperately required is a greater investment in necessary domestic services and not a reshuffling and reduction of what already exists. "New Federalism" was a bad idea the first time it was proposed and "New Federalism II" is still a bad idea.

For these and other reasons, we urge the Committee and the Congress to reject the block grant proposal. I ask that a copy of my letter be included in the record of the hearing held on February 20, 1991.

Sincerely,

William Lucy
WILLIAM LUCY
International Secretary -
Treasurer

GERALD W. McENTEE
International President

GWMcE/WL:mhg

CITY OF MOBILE

MOBILE, ALABAMA

MICHAEL C. DOW
MAYOR

February 22, 1991

The Honorable Jim Sasser
Chairman
Committee on the Budget
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

I am writing to share my views on the negative impact that enactment of President Bush's block grant proposal would have on the City of Mobile, Alabama. I also requests that my remarks be included in the record of the Budget Committee's hearings on this subject.

Mobile experiences the same urban problems that afflict most American cities: economic distress, high crime rate, housing deficiences, drug abuse, crumbling infrastructure, and so forth. While I recognize the importance of addressing deficits at both state and federal levels, I am also painfully aware of city budget shortfalls. It must be remembered that city and local governments are the first line, face-to-face administrators of most programs which affect communities. Spending cuts and inaccessibility of funds hamper our participation in the war against crime, durgs, poor housing, and economic decay.

If the few remaining direct urban aid programs are consolidated into state block grants, I fear the City of Mobile and most other urban communities will suffer irreparable harm. States are strapped by their own budgetary difficulties and could take advantage of block grant funds to address their own priorities at the expense of urban centers. For example, the State of Alabama is primarily rural, and a disproportionate percentage of resources would likely be devoted to rural interest despite the more prolific and concentrated

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problems found in cities. Indeed, many of the programs that the President now wants to include in the block grant were originally designed with cities in mind.

Turning over the HUD-administered Community Development Block Grant would be particularly harmful. These funds, which now are distributed directly to local governments, are the primary vehicles for federal dollars for economic development, social services, education, etc.. Direct access to this resource is especially critical to cities like Mobile since funds from the Economic Development Administration have become scarce and restricted, and Urban Development Action Grants have been cut from $21.8 million in 1981 to $0 this year.

Similarly, folding the State and Local Law Enforcement Program into a state block grant would effectively gut law enforcement efforts. As as major seaport on the Gulf Coast, the City of Mobile is on the cutting edge of anti-drug abuse initiatives. Our experience has been that funds which are currently passed through the state under the terms of the Anti-Drug Act have been delayed and few. Turning the State and Local Law Enforcement Program over to the state as well would exacerbate the situation.

These are but two examples of the adverse implications the Administration's proposal would have for cities. We in Mobile would be especially vulnerable because we have only recently begun to avail ourselves of many of the federal programs that other cities have enjoyed for years. We are comparatively recent competitiors for much of what has been proposed for the block grant, and we could find one more obstacle insurmountable.

Mr. Chairman, I strongly urge you to take all of these facts into consideration as you and the Budget Committee deliberate on this important issue. Please do not hesitate to call on me for any additional information that may be useful. I would also be more than happy to appear before you and the Committee to testify personally on this matter. Thank you for your consideration.

Sincerely,

Michael C. Dow
Mayor

MCD/b

cc: The Honorable Howell Heflin
The Honorable Richard Shelby
The Honorable Sonny Callahan
Mr. O. H. Delchamps

COALITION ON HUMAN NEEDS
[illegible]

Susan Rees
Executive Director

February 28, 1991

Chairman Jim Sasser
Senate Budget Committee
621 Dirksen Office Building
Washington, D.C. 20510-5100

Dear Senator Sasser:

The Coalition on Human Needs urges you to oppose the Bush Administration's block grant proposal and any similar proposal that would repeal federal programs targeted to specific needs and at-risk populations.

The Coalition, formed in 1981 as the Coalition on Block Grants, consists of over 100 national religious, civil rights and professional organizations and others concerned with the needs of the poor, minorities, children, women and disabled and elderly individuals.

Last week, mayors of large and small cities testified before both House and Senate Budget Committees that the Bush proposal would deal a "crushing blow" to American cities.

We agree that there is a crisis in urban America. But we also point out that the block grant would hurt not only local governments but the ultimate beneficiaries of federal programs -- citizens, and particularly the disadvantaged citizens the current programs are intended to serve. These beneficiaries live not only in cities but rural areas and receive these services not only from public agencies but through non-profit, community based organizations.

The Coalition seriously questions whether any set of federal programs, even if confined to those within the jurisdiction of a single authorizing committee, can be selected in such a way as not to interfere with specific services that address particular needs of particular groups of people. Supplemental Educational Opportunity Grants, for example, assist undergraduate college students with "exceptional need."

Members of the Coalition are eager to meet with you or your staff to explain our concerns more fully. We are able to share with you reports from monitoring block grants created in 1981 and 1982.

Sincerely,

Susan Rees

Susan Rees
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COALITION ON
HUMAN NEEDS
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COALITION ON HUMAN NEEDS
BUDGET PRIORITIES FOR FISCAL 1992

Feb. 25, 1991

At a minimum, Congress and the President should provide current services funding (current levels, plus inflation) for all low income, high priority programs of the federal government. These include nine entitlement programs and 33 discretionary programs listed on the last page. In addition, the following two entitlements and 12 discretionary programs should be funded as special initiatives at amounts that allow expansion beyond current services.

In Function 600 -- Income Security

- The **Mickey Leland Domestic Hunger Relief Act**, requiring approximately $500 million over current services for food stamps in FY 92 and and $5 billion over five years.

- For **WIC**, (the Special Supplemental Food Program for Women, Infants and Children), $275 million above current services for FY 92. This would enable 20 percent more of the eligible population to be served, moving toward serving all those now eligible by 1996. Recent USDA data show that each dollar spent on pregnant women saves up to $3.13 in Medicaid costs within two months.

- For **assisted housing programs**, full authorized funding for the National Affordable Housing Act of 1990 or the current year's appropriated level, plus inflation, for individual programs, whichever is higher. The current total housing appropriation for 1991 is $19.8 billion and should rise in 1992 to the $29 billion authorized under the new law. *

- For **Unemployment Insurance**, a $200 million emergency supplemental to help relieve the administrative strain resulting from the recession; a contingency reserve fund in the FY 92 appropriation to release additional administrative funds for unanticipated workload increases after Oct. 1; and, for a long-term solution, enactment of expanded benefit coverage and an appropriated entitlement for UI administration. In some places, new applicants are facing five-week waits before receiving their first checks. Long lines and unanswered phones are commonplace.

- For **Low Income Home Energy Assistance Program (LIHEAP)** $600 million over current services to bring the program to its fully authorized amount of $2.3 billion.

In Function 500 -- Education, Training and Social Services

- For **Child Welfare Services** (Title IV-B), $52 million over the current appropriation in recognition of increased child abuse and neglect stemming, in part, from drug use and increased unemployment. This increase would bring the program up to its authorized level. Congress will consider converting Title IV-B to a capped entitlement.

- For **Head Start**, $2.321 billion over the current appropriation in order fully to meet the authorized level of $4.3 billion in 1992. This would add 420,000 children to the preschool education program that has been shown to return as much as $6 in savings for every dollar invested due to higher worker productivity and lower remedial and education and welfare costs over the long-run. Head Start is the principal federal program addressing our national goal of education readiness.

- For **Chapter 1, Compensatory Education**, an increase of $4.3 billion to provide services to all eligible students. Funded at $6.2 billion currently, the program will serve about 60 percent of the eligible children, up from 45 percent served in 1989. Chapter 1 is the major federal education program providing educational services to five million poor children in public and private schools.

- For **Pell Grants** for low income students going to college, an increase of $4.6 billion to allow the program to function at the level currently authorized by Congress. The Pell Grant program is the foundation of the federal student aid programs for undergraduate students. However, federal appropriations are so low that 70% of Pell Grant funds go to students with less than $15,000 in resources. The average family income of recipients was $11,326 in 1988-89. The maximum grant award is $2,400. **Work-Study** and other programs for needy students should be maintained at current services.

- For the **Child Care and Development Block Grant**, a $93.1 million increase over the 1991 appropriation to bring the new program to its full authorization level and serve approximately 318,000 children. This 13 percent increase to $825 million will help low income parents find and pay for child care and enable states to improve the safety and quality of care.

- For the **Title XX Social Services Block Grant**, $200 million over the current appropriation of $2.8 billion. Currently funded at less than a decade ago, this flexible program serves children as well as the elderly, disabled persons and homeless persons, people with AIDS and drug addiction.

- For the **Part H, Infants and Toddlers with Disabilities Act**, $200 million to assist states in developing a statewide, comprehensive system of early intervention services for infants and toddlers with disabilities (up to 3 years old) and their families. This appropriation would provide further incentive for states now deciding to participate in this optional program. The initial appropriation for this new program is $100 million in FY 1991.

Function 550 -- Health Care Services

- For **Community and Migrant Health Centers**, a $179 million increase over the 1991 appropriation totaling $499 million. Waiting lists at these clinics equal 20 to 30 percent of current enrollment at most centers. Infant mortality has been identified as one of the most urgent needs at most of them. Increased capacity of the centers to provide care to low income people on a sliding scale is a beginning step toward universal access to health care in this country.

- For the **National Health Service Corps**, an increase of $23 million for the field program and $52.2 million in the loan and scholarship program, bringing total funding to $166 million in 1992. This is the primary source of health center physicians for underserved communities. The centers are facing a shortage of 500 doctors, plus up to 125 more who have been notified to report for Desert Storm.

- For **Childhood Immunizations**, an increase of $50 million to bring 1992 funding to $267.7 million. Currently, only about 80 percent of children under four are fully immunized, and 17,000 cases of measles could have been prevented with timely immunization. Each dollar invested saves ten in future health care costs. The program reaches low income children through WIC clinics and public health and assistance offices.

- **The 1992 authorization of $29 billion includes**

$14.8 billion for public, Section 8 and other assistance programs;
$2.1 billion for the new HOME block grant;
$521.5 million for the homeownership trust;
$855.0 million for HOPE homeownership assistance programs;
$2.1 billion for public and Indian housing operating subsidies;
$41.7 million for public housing family support centers and early childhood development;
$425.0 million for preservation of existing mortgage contracts;
$1.1 billion for section 202 elederly and disabled housing and congregate services;
$150.0 million for McKinney emergency shelter grants;
$150.0 million for homeless supportive housing;
$30.0 million for supplemental homeless assistance;
$82.4 million for single occupancy rehab;
$156.5 million for housing for persons with AIDS;
$3.3 billion for CDBG;
$36.5 million for Neighborhood Reinvestment Corp.;
$6.3 million for fair housing enforcement.

LOW INCOME HIGH PRIORITY PROGRAMS

Current Services or Inflation-Plus Funding Recommended for FY 92

Entitlements

500	Vocational Rehab. State Grant
550	Medicaid
600	Food Stamps (including Puerto Rico)
	Family Support (AFDC)
	Foster Care
	Supplemental Security Income
	Child Nutrition
	Earned Income Tax Credit
700	Veterans Programs

Discretionary

270	Low Income Weatherization
450	BIA Indian Operations
	Indian Construction
	Community Development Block Grant
500	Compensatory Education
	Indian Education
	Handicapped Education
	Student Financial Assistance
	TRIO and Historically Black Colleges
	Bi-lingual Education
	Vocational Education
	Job Training Partnership Act
	Family Support JOBS
	Homeless education and training
	Older Americans Employment
	Vocational Rehabilitation
	Child Welfare Services
	Head Start
	Community Services Block Grant
550	Maternal and Child Health
	Community Health Centers
	Migrant Health Centers
	Homeless Health Care
	National Health Service Corps
	Family Planning
	Indian Health
	Immunization and Vaccines
600	Low Income Home Energy Assistance
	WIC and Commodity Supplemental Food Program
	Homess Food and Shelter
	Subsidized Housing
700	Homeless Veterans
750	Legal Services
	Juvenile Justice Assistance

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Susan Rees
Executive Director

February 28, 1991

Chairman Jim Sasser
Senate Budget Committee
621 Dirksen Office Building
Washigngton, D.C. 20510-5100

Dear Senator Sasser:

The Coalition on Human Needs urges you to provide funds in the FY 92 budget resolution to meet our nation's growing crisis in housing, nutrition, health care, education and human services.

The Coalition consists of over 100 national religious, civil rights, labor and professional organizations, and others concerned about the needs of the poor, minorities, children, women and disabled and elderly persons.

We hope that, as in recent years, the House Budget Committee will assume baseline funding for all "low income, high priority" programs along with increases above the baseline for certain initiatives. It is critical that the budget maintain funding for the recent expansion of Medicaid to cover low income pregnant women and children.

We urge you to consider the funding increases recommended by our board that are described in the enclosed document. The initiatives are in the following programs:

Food Stamps
Asssited Housing
WIC (Women, Infants and Children's Supplemental Feeding Program)
Unemployment Insurance
Child Welfare Services
Head Start
Child Care and Development Block Grant
Title XX Social Services
Low Income Home Energy Assistance Program
Part H Infants and Toddlers with Disabilities
Community and Migrant Health Centers
National Health Service Corps
Childhood Immunizations
Chapter I Compensatory Education
Pell Grants

Significant increases for these programs, and current services for other high-priority, low income programs, can and must be achieved within the 1992 cap on domestic appropriations.

We have noted with dismay that the Administration's budget request for domestic programs totalled $2.7 billion less than the cap permits. Instead of cutting domestic programs to reduce the deficit, we believe controversial defense programs, rendered unnecessary with the demise of the Warsaw Pact, should be curtailed. Indeed, unless substantial cuts are made this year and next to lower the defense baseline, low income and other domestic programs will come under extreme pressure in 1994 when the budget will have only a single cap.

The Coalition's budget priorities recognize the growing consensus in this country on the urgency of investing in children and education, moving toward universal health coverage, including long-term care, and eliminating hunger and homelessness. The present recession has exacerbated these problems so that we now are facing a human emergency at home that is at least equal to the crises in the Gulf and our financial institutions.

Thank you for your past support of human needs programs. Members of the Coalition look forward to working with you again to obtain increased funding for these initiatives.

Sincerely,

Susan Rees

Susan Rees
Executive Director

cc: Committee Members

Source: The Donald S. MacNaughton Symposium:
Democratic Governance: America in the 21st Century

States To The Rescue?

Aid to Central Cities Under the New Federalism

John Yinger

Everyone seems to want the states to take more responsibility in the U.S. federal system. With tax limitations passed throughout the country during the last dozen years, collectively called the tax revolt, voters have imposed severe limits on local property tax rates, thereby placing pressure on state governments to replace lost local revenues. Shifting responsibility away from the federal government toward the states was also a key theme of the Reagan Administration. This theme was implemented primarily through extensive cuts in federal grants to state and local governments, which placed additional pressure on the states.

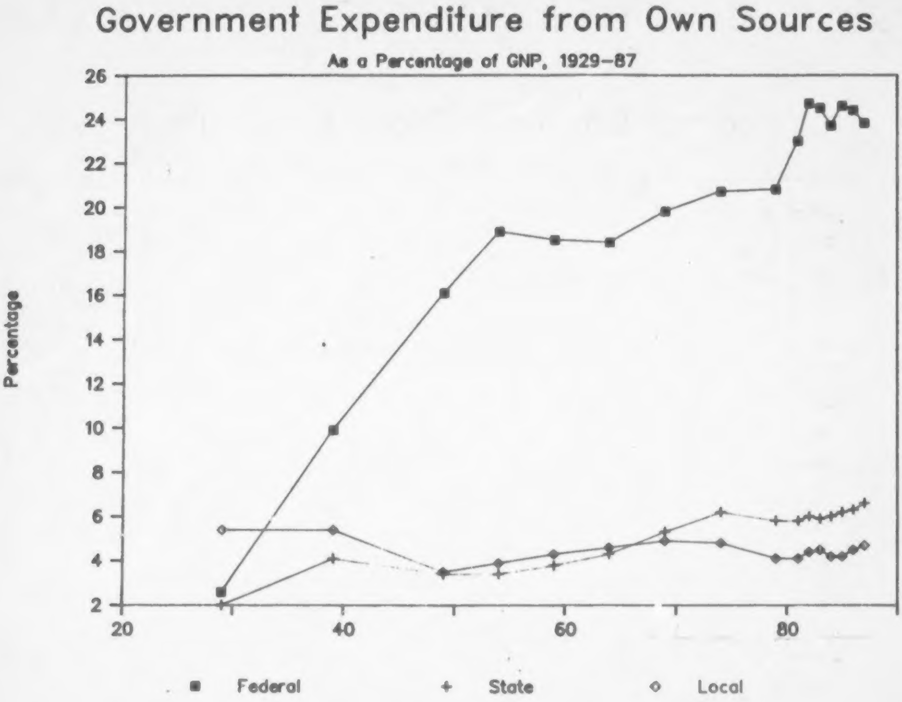
Central cities are caught in the middle of this debate. They have been particularly hard hit by property tax limitations and federal aid cuts. Moreover, they often experience national economic and social trends in magnified form. Indeed, suburbanization, interregional migration, the concentration of poverty in central cities, and other trends have severely undercut the ability of many central cities to deliver vital public services. To a large degree, therefore, many central cities are at the mercy of their states; that is, the cities' futures depend on their states' responses to recent changes in federalism.

This paper explores the fate of central cities in our changing federal system, focusing on the role of state assistance to central cities. I begin through a wide lens, looking at the impact of the tax revolt and recent federal aid cuts on our federal system as a whole and at the state response to these events. Then I narrow the focus to the central cities. How severe is the impact of national economic and social change on the fiscal health of central cities? What has been the effect on central cities of the tax revolt and federal aid cuts, and has state assistance offset this effect to some degree? To what extent have states directed their assistance to the central cities that need help the most? What is the outlook for state assistance to central cities in the years ahead?

Recent Changes in U.S. Federalism

The rough outlines of recent changes in our federal system can be seen in the trends in federal, state, and local spending.

FIGURE 1



Source: Advisory Commission on Intergovernmental Relations, *SignificantFeatures of Fiscal Federalism*, 1983 Edition, Volume II, Table 1.

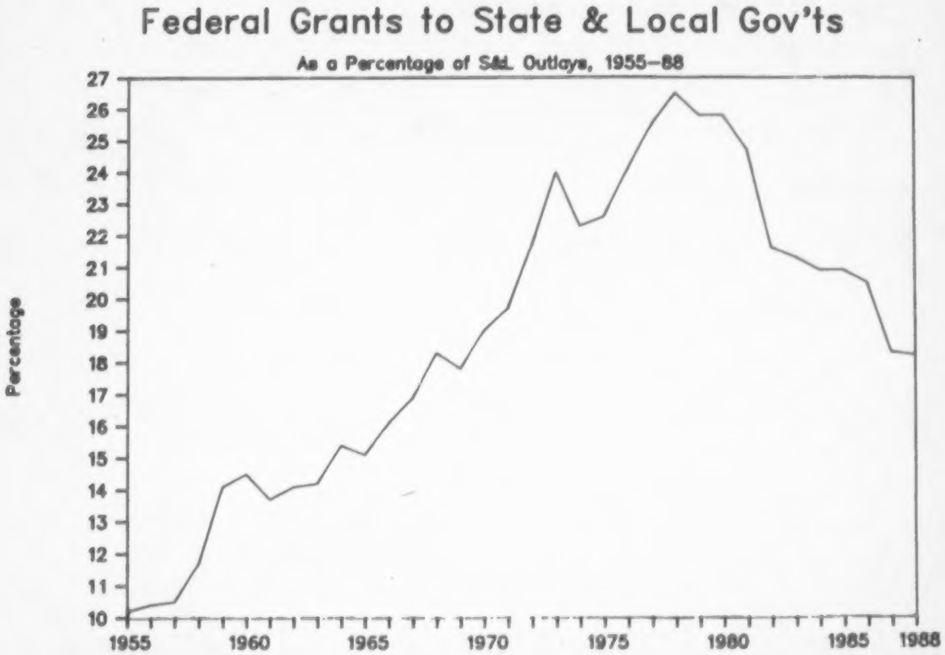
As shown in Figure 1, federal spending increased from 2.6 percent of GNP in 1929 to 24.7 percent in 1982. Because of the spending policies of the Reagan Administration, the trend is not so clear in recent years, but overall, federal spending's share of GNP has declined slightly since 1982.

Figure 1 also indicates that state spending financed from states' own revenue sources has increased steadily as a share of GNP, from 2.0 percent in 1929 to 6.3 percent in 1986. On average, every percentage point increase in federal spending relative to GNP has been accompanied by a 0.2 percentage point increase in state spending. State spending's share of GNP declined slightly in the late 1970s, but it has exhibited slow, steady growth since 1983.

In contrast, local spending from own sources has declined as a share of

GNP. The local share, 5.4 percent, was higher than either the state or federal share in 1929, but it is now the lowest of the three with a value of 4.7 percent in 1987. Thanks largely to the tax revolt, as exemplified by Proposition 13 in California and Proposition 2 1/2 in Massachusetts, local spending fell to 4.1 percent of GNP between 1979 and 1981, and has increased only slightly since then.

FIGURE 2

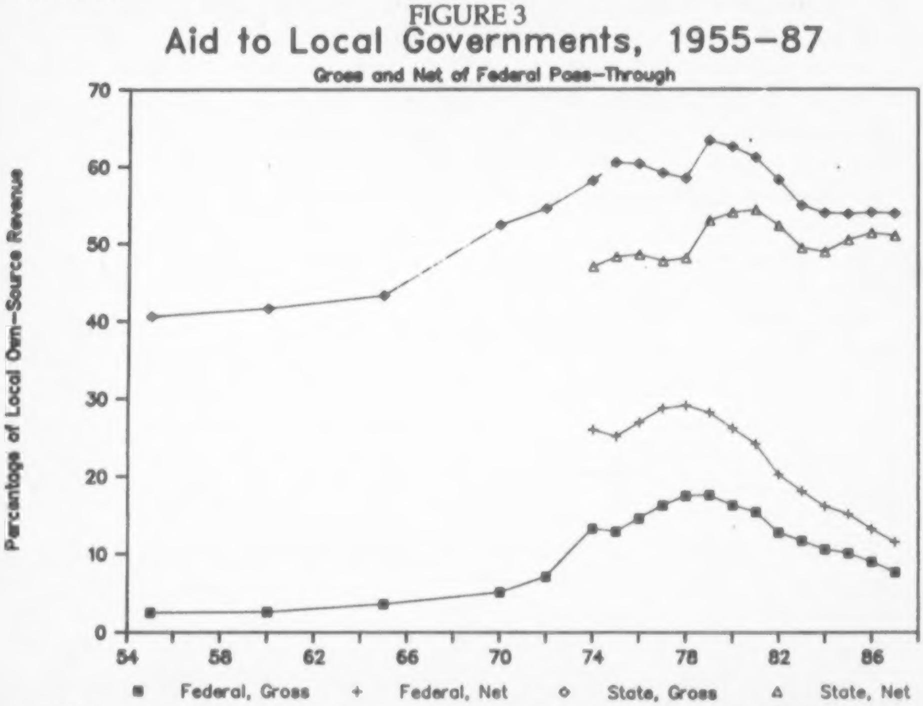


Source: Advisory Commission on Intergovernmental Relations, *SignificantFeatures of Fiscal Federalism*, 1983 Edition, Volume II, Table 3.

One type of federal spending with particularly important implications for federalism is federal grants to state and local governments. These grants have changed dramatically in recent years. As shown in Figure 2, federal grants grew from 14.5 percent of state and local outlays in 1960 to 26.5 percent in 1978. Because the Reagan Administration eliminated many federal grant programs, however, this share has fallen rapidly since 1980. In 1989 it is estimated to be 17.1 percent and further declines are anticipated. Indeed, the Office of Management and Budget forecasts decreases in the real value of federal grants in 1990 and 1991.

Both state and local governments have experienced cuts in federal aid. The lower two lines in Figure 3 illustrate the recent decline in federal grants to local governments. The lowest line describes federal aid to local governments as reported in Census publications. These publications treat so-called federal pass-through aid, which is federal aid passed through the states to the local governments, as state aid. The higher federal aid line equals the lower line plus an estimate of federal pass-through aid (which is not available for years before 1974). This line reveals that federal aid to local governments (including pass-through aid) reached 29.1 percent of local own-source revenue in 1978 and has declined steadily since then. Indeed, by 1987, federal aid was down to only 11.5 percent of local own-source revenue.

FIGURE 3



Advisory Commission on Intergovernmental Relations, *Significant Features of Fiscal Federalism*, 1987 Edition, Table 43 1988 Edition, Vol. II, Table 76; and 1989 Edition, Vol. II, Table 33; Estimates of federal pass-through aid were provided by Professor Seymour Sacks.

For the purposes of this paper, a key issue is the state response to the tax revolt and to recent federal aid cuts. Did state governments offset local losses in property tax revenue and in federal aid?

Before addressing this question, it is important to note that the states, n the local governments, are the constitutional units in the United States. To a large extent, states make the rules under which local governments operate. States decide which taxes local governments are allowed to levy. States require local governments to provide certain services and may transfer the responsibilities for other services from local governments to the state. States also decide the role to be played by overlapping jurisdictions, such as cities, counties, and school districts. These rules, or fiscal institutions, vary widely from state to state. Some local governments operate under very favorable rules, others have limited access to taxes, are assigned extensive service responsibilities, and must compete with other local jurisdictions.

As Professor Helen F. Ladd of Duke University and I put it in our recent book (*America's Ailing Cities: Fiscal Health and the Design of Urban Policy.* Baltimore: Johns Hopkins University Press, 1989.), state assistance to local governments comes in two forms: intergovernmental grants and fiscal institutions. Most studies concentrate on grants, but state decisions about fiscal institutions have an equally large, and in some cases a larger, impact on the ability of local governments to deliver public services. Moreover, focusing on grants alone can be misleading; for example, a state may give extensive grants to its cities in part because its fiscal rules for them are so restrictive.

Let us now examine some trends in intergovernmental grants and other forms of state assistance to local governments.

State grants to local governments are described in the top two lines in Figure 3. The difference between the two state aid lines is federal pass-through aid. As noted earlier, the published Census data (reflected in the top line) count pass-through aid as state aid, even though it comes from the federal government. The lower line does not include pass-through aid and, therefore, more accurately describes the state resources that flow to local governments in the form of grants.

Figure 3 indicates that state aid to local governments has been increasing slowly but steadily over the long run. By 1978, state aid, net of the federal pass-through, was 48.1 percent of local own-source revenue. The tax revolt caused a sharp increase in state aid to local governments between 1978 and 1979, largely because California, blessed with a state budget surplus, provided increased aid to its local governments to offset the effects of Proposition 13 (see Citrin and Green. "Policy and Opinion in California After Proposition 13." *National Tax Journal* 38 [March, 1985]: 15-36.) Smaller increases in state aid occurred until 1981, in part because Massachusetts also increased its grants when Proposition 2 1/2 was passed in 1980 (see Bradbury et al. "State Aid to Offset Fiscal Disparities Across Communities." *National Tax Journal* 37 [June, 1984]: 151-170.) and perhaps because other states increased aid in response to specific tax limitation measures. These increases in state aid proved to be temporary, however, and by 1984 state aid was virtually the same percentage of local own-source revenue as it was in 1978. State aid to local governments has increased slightly, overall, since 1984, but it actually declined slightly between 1986 and 1987, the last year for which data are currently available.

The increases in state aid to local governments between 1978 and 1984 appear to have been a response to the tax revolt and perhaps to the initial cuts in federal aid. Figure 3 indicates, however, that these changes in state aid were temporary. The decline in state aid relative to local own-source revenue between 1981 and 1984, when federal aid continued to decline dramatically, gives no support to the view that state governments can be expected to replace lost local revenue from the tax revolt and federal aid cuts. Although relative state aid has grown somewhat since 1984, this growth appears to be consistent with the long-term trend of slow growth in state aid, which existed before these changes in federalism took place, and has not been sufficient to offset the continuing declines in federal aid to local governments.

These broad trends are suggestive, but they do not provide a formal rejection of the hypothesis that states offset losses in federal grants. Hence, several scholars have examined the responses of individual states to federal grant cuts. See, for example, Peterson and Lewis, eds. *Reagan and the Cities.* Washington, D.C.: The Urban Institute, 1984, or Nathan, Doolittle, and Associates. *Reagan and the States.* Princeton, N.J.: Princeton University Press, 1987. These scholars have uncovered some cases in which states increased funding for specific programs that experienced large cuts in federal categorical grants, but these increases in funding often came at the expense of other state aid programs and often were temporary. In short, these studies do not change the conclusion that, for the most part, states have been unwilling to replace lost federal aid.

Recent trends in the fiscal rules under which local governments operate, that is in fiscal institutions, can also be observed.

In the case of taxing authority, the use of earnings and sales taxes continues to grow among all local governments. To be specific, the number of local governments with an earnings tax grew from 3,088 in 1976 to 3,518 in 1987, an increase of 13 percent. In both years, about 80 percent of these governments were in Pennsylvania. In addition, 6,892 local governments levied a general sales tax in 1987, an increase of 40 percent over the 4,893 governments in 1976. This increased usage of earnings and sales tax exaggerates the change in fiscal rules to some degree, because some local governments already had the authority to levy one of these taxes in 1976 but decided not to do so.

Since 1982, several states also have taken over major services previously provided by local governments. For example, Massachusetts, Michigan, New York, and Florida have taken over some local courts; Arizona has taken over some local medical services; and Massachusetts has taken over some local parks and recreation.

The net effect on local governments of these changes in grants and fiscal institutions cannot be measured precisely. However, the overall impact of increased taxing authority and of state service takeover appears to be modest relative to the cuts in state grants relative to local own-source revenue. In most states, net assistance to local governments appears to have declined during the 1980s.

Recent Economic and Social Trends Affecting Central Cities

Let us now focus our attention on central cities. To understand the impact on cities of changes in our federal system, and in particular of changes in state assistance, we must first examine the impact on cities of national economic and social trends. These trends include suburbanization, interregional migration, the concentration of poverty in central cities, and the shift from manufacturing to service employment.

In our recent book (*America's Ailing Cities: Fiscal Health and the Design of Urban Policy*), Professor Ladd and I ask the question: What has been the impact of these economic and social trends on the ability of central cities to deliver vital public services? We ask this question using the concept of city fiscal health.

As we use the term, a city's fiscal health is its ability, based on economic and social factors outside the control of city officials, to provide an average level of public services at an average tax burden on its residents. Cities in poor fiscal health are severely constrained by their economic and social circumstances. If they choose to keep their tax rates near the average, they must provide below-average levels of public services; if they choose to provide average-quality public services, they must impose above-average tax rates.

Fiscal health is not to be confused with a city's actual budgetary situation, which reflects the managerial skill of city officials. Cities in poor fiscal health, in our sense, can still balance their budgets if they make the necessary hard choices. Moreover, cities in good fiscal health may be poorly managed and end up with budget deficits. As we say in our book, our objective is to determine the fiscal cards each city is dealt, not how well it plays its hand.

Our measure of fiscal health considers both a city's revenue-raising capacity and its expenditure need.

Revenue-raising capacity is the amount of revenue a city could raise if it imposed an average tax burden on its residents, where tax burden is defined as taxes as a share of resident income. This approach facilitates comparisons because each city's capacity is calculated with the same average tax burden.

Capacity differs across cities for two reasons. First, the residents are richer in some cities than in others. The higher the per-capita income of a city's residents, the more revenue the city can raise at an average tax burden. Second, some cities can export more of their tax burden to nonresidents than can others. For example, cities that are retail centers for suburbanites or tourists can export some of their sales-tax burden to nonresident shoppers.

Expenditure need is the amount a city has to spend to provide public services of average quality. Cities differ in their expenditure need because it costs more to provide public services in some cities than in others. The higher a city's costs, the more it must spend to obtain average-quality services; that is, the higher its expenditure need. Some cities have high costs because they are located in high-wage regions and therefore must pay relatively high wages to their employees. In addition, the environment for providing public services is not equally harsh everywhere. For example, cities with high concentrations of poverty or old housing must spend more than other cities to obtain the same protection from crime or fire.

A city's overall fiscal health is the difference between its revenue-raising capacity and its expenditure need. We express this difference as a percentage of revenue-raising capacity, and we normalize it so that it equals zero in the average city in 1972.

Our book examines the fiscal health of major central cities in the United States, which are defined as cities with populations above 300,000 or the central city of one of the nation's 50 largest metropolitan areas in 1970 or 1980. A total of 86 cities fall into this class, but data limitations cut our final list of cities to 71. Throughout this paper, the term "major central cities" refers to the 71 cities on this list.

We find that the fiscal health of the average major central city declined between 1972 and 1982. In particular, the average value of our fiscal health index for 1982 is -10.5 percent. One way to interpret this result is to say that the average city would have to receive outside assistance equal to 10.5 percent of its 1982 revenue-raising capacity to be able to provide the same quality of services at the same tax burden as the average city in 1972.

We also find that fiscal health varies widely across major central cities. Newark's 1982 fiscal health index is -110, which implies that Newark's 1982 capacity would have to be more than doubled by outside assistance to raise its fiscal health to the 1972 average. The other least healthy cities are New York, Detroit, New Orleans, Philadelphia, Cleveland, Chicago, Buffalo, Los Angeles, and Baltimore, all of which have fiscal health indexes below -45. In contrast, Hollywood, Florida, has a 1982 index of 47; Hollywood could waste almost half of its capacity and still be able to provide average quality services at an average tax burden. Eight other cities have indexes above 20: namely Ft. Lauderdale; Garden Grove, Anaheim, Santa Ana, and Ontario, California; Warwick, Rhode Island; Virginia Beach; and Greensboro, North Carolina.

The social and economic conditions that lead to poor fiscal health are concentrated in the largest cities and the cities with the poorest residents. Thus cities with populations above 1,000,000 have an average fiscal health index of -73, whereas cities with populations below 100,000 have an average index of 16. The one-fifth of cities with the poorest residents have an index of -46, whereas the one-fifth of cities with the richest residents have an index of 13.

In a recent paper (Ladd and Yinger. "Recent Trends in City Fiscal Health." Paper presented at the 82nd Annual Conference on Taxation, National Tax Association — Tax Institute of America, October 9, 1989, Atlanta, Georgia.), Professor Ladd and I update our fiscal health index using the limited data available for 1986. We estimate that economic and social changes between 1982 and 1986 had a modest favorable impact on the fiscal health of the average major central city. In particular, the average fiscal health index rose from -10.5 percent in 1982 to -4.0 percent in 1986. This result implies that average fiscal health among major central cities has improved since 1982, but is still lower than it was in 1972. To be specific, the average city would have to receive outside assistance equal to 4.0 percent of its 1986 revenue-raising capacity to be able to provide the same quality services at the same tax burden as the average city in 1972.

Although recent events have improved average fiscal health, they have not eliminated the enormous diversity in fiscal health across cities. Indeed, the gap between the least health city (still Newark, New Jersey) and the healthiest city (still Hollywood, Florida) actually grew between 1982 and 1986. Moreover, despite the sustained growth in the national economy, fiscal health declined in 21 cities between 1982 and 1986. In the American urban harbor, a rising tide does not lift all boats.

Central Cities Under the New Federalism

Recent changes in our federal system have been particularly hard on cities.

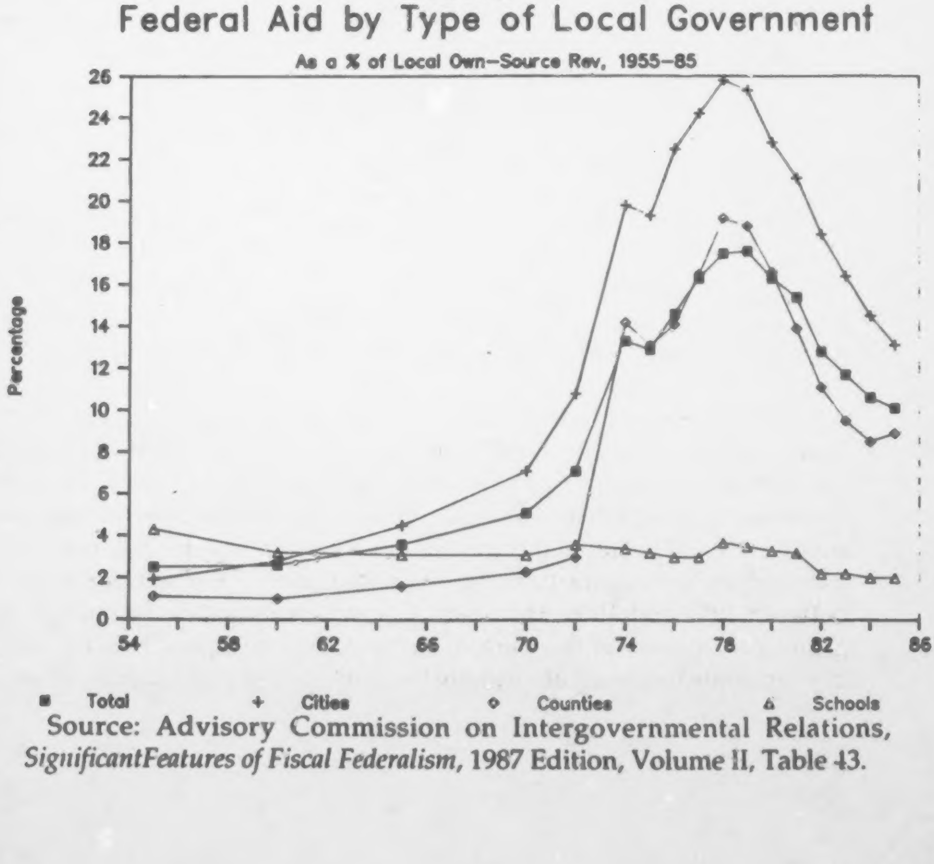
In the two states with the most publicized property tax limitations, California and Massachusetts, effective property tax rates were highest in the largest cities, so the tax limitations had the greatest impact there. Proposition 21/2, for example, forced Boston to cut its effective property tax rate from about 5 percent to 2 1/2 percent, even though Boston is not allowed to levy any other broad-based tax (see Bradbury and Yinger. "Making Ends Meet: Boston's Budget in the 1980s." *New England Economic Review* [April/March, 1983]: 18-28.). In the case of all major central cities, Professor Ladd and I estimate that if one treats voter preferences for lower tax rates as a constraint on the ability of cities to raise revenue, the tax revolt almost doubled the decline in fiscal health of the average city between 1972 and 1982 (Ladd and Yinger. *America's Ailing Cities: Fiscal Health and the Design of Urban Policy.*) This is a "worst case" estimate in the sense that it assumes tax limitations did not force management improvements.

The increases in federal grants before 1978 and the cuts in federal grants since then also have been concentrated in cities. As shown in Figure 4, federal grants to cities increased from 1.9 percent of cities' own-source revenue in 1955 to 25.8 percent in 1978. This share was cut in half between 1978 and 1985. Counties and school districts did not experience such dramatic cuts. Among major central cities, the cut in real federal grants per capita aid was 29 percent, on average, between 1982 and 1986, and real federal grants declined in 60 of the 71 cities.

The same pattern can be seen in state grants to cities. Figure 5 shows that cities, counties, and school districts all received increases in state grants between 1962 and 1975, but cities have faced steady cuts in grants since then, whereas state aid to school districts has gone up in most years and increased substantially over the 1975 to 1986 period. States clearly have not made up cities' recent federal-aid losses.

Figures 4 and 5 are based on published Census data and, therefore, treat federal pass-through aid as state aid. Because pass-through aid has declined

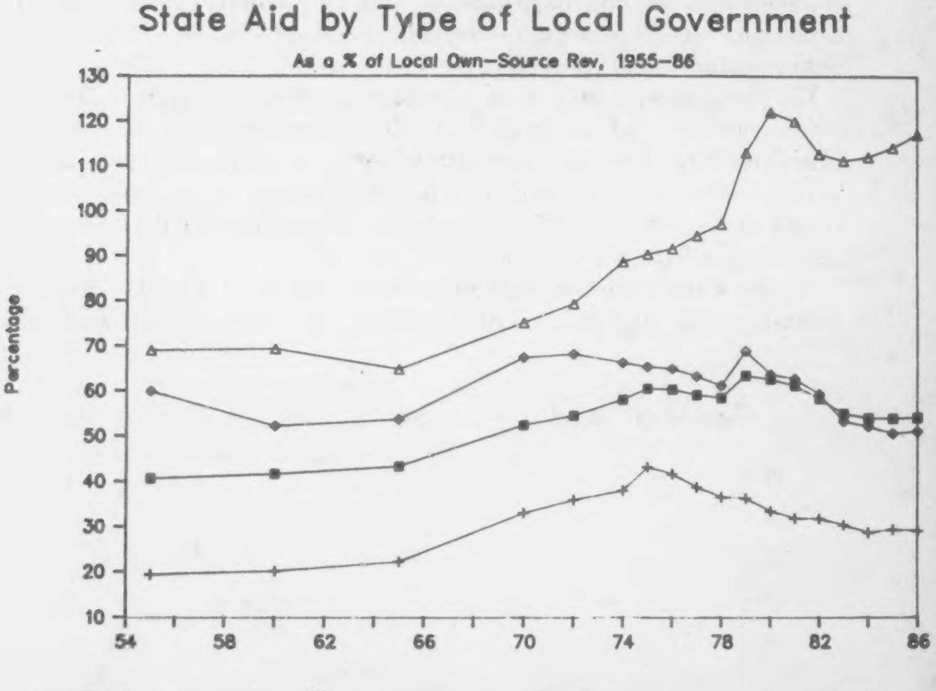
FIGURE 4



Source: Advisory Commission on Intergovernmental Relations, *SignificantFeatures of Fiscal Federalism*, 1987 Edition, Volume II, Table 43.

since 1980, these figures understate the recent declines in federal aid and overstate the recent declines in state aid to some degree. This problem is particularly severe for schools because the level of and recent change in education pass-through aid are large relative to other federal aid to education. Nevertheless, correcting for pass-through aid would not alter the conclusion that recent changes in both federal and state aid have been particularly hard on cities.

FIGURE 5



Source: Advisory Commission on Intergovernmental Relations, *SignificantFeatures of Fiscal Federalism*, 1988 Edition, Volume II, Table 76.

In the case of major central cities (obviously excluding Washington, D.C.), state grants boosted city fiscal health, on average, between 1972 and 1982, but have done little to help central cities since then. To be specific, Professor Ladd and I estimate that these grant increases cut the -10.5 percentage point decline in fiscal health in the average city by about one third. In real terms, state grants per capita to these cities increased 6 percent, on average, between 1982 and 1986. However, 13 cities experienced declines in real grants per capita over this period. Moreover, the real per-capita income of city residents increased at virtually the same rate so that, ignoring changes in cities' ability to export taxes, state grants did not increase relative to cities' revenue-raising capacity and, therefore, did not raise the average city's fiscal-health index.

States also have done little in recent years to loosen the fiscal rules facing their major central cities. Fifteen major central cities have the authority to levy an earning tax on commuters, but no major central city has been granted this authority since 1971. In 1982, 45 major central cities also levied a general sales tax, but this number has not grown since then. States sometimes also change service responsibilities for major central cities. For example, 11 major central cities had extensive responsibility for welfare services in 1967 (defined as spending more than $100 per capita in 1982 dollars), but this number had declined to 4 by 1982. Between 1972 and 1982, one major city (Albany) was relieved of responsibility for elementary and secondary education and another (Cincinnati) was relieved of responsibility for a city hospital. Changes in service responsibility do not always work in this direction, however; Indianapolis and Austin gained public hospitals during the same period. In 1983, New York State assumed responsibility for the City University of New York, but I am not aware of any other cases since 1982 in which a state has taken over a significant service provided by a major central city.

What is the net impact of all these changes? Professor Ladd and I calculate the extent to which state assistance through both grants and fiscal institutions affects the fiscal health of major central cities (*America's Ailing Cities: Fiscal Health and the Design of Urban Policy*). We find that between 1972 and 1982, changes in grants and fiscal institutions together had a favorable impact on the fiscal health of the average central city. To be specific, state assistance cut the decline in fiscal health in the average city roughly in half. Although a comparable estimate for the 1982-1986 period is not available, the evidence suggests that, on average, changes in state assistance since 1982 have done little, if anything, to improve the fiscal health of central cities.

It is also revealing to ask how state assistance varies from one major central city to another. Do states give more assistance to the cities that need help the most? Do cities with more federal aid get less state aid? Professor Ladd and I address these questions in a recent paper (Yinger and Ladd. "The Determinants of State Assistance to Central Cities." *National Tax Journal* 42 [December 1989]).

Although not all states are equally generous, we find strong evidence that major central cities with poorer fiscal health tend to receive more state assistance. On average, state assistance offset 43 percent of the observed disparities in fiscal health across cities in 1982. Somewhat surprisingly, the equalizing impact of state assistance through institutions is considerably greater than those of state assistance through grants. For example, 5 of the

6 cities with the poorest fiscal health have been given access to a tax on commuter earnings, which greatly increases their ability to export some tax burden to nonresidents and, thereby, increases their revenue-raising capacity. Many states have equalizing grant programs, particularly for education, but the equalizing impact of these programs often is offset by hold-harmless provisions or other grant programs that direct aid to relatively healthy cities. (Even so, state grant programs were somewhat more equalizing than federal grant programs in 1982.) Moreover, there does not appear to be any correlation between a city's level of or change in fiscal health and the change in its state grants between 1982 and 1986. Indeed, two of the least healthy cities, Newark and Baltimore, experienced large cuts in state grants over this period.

Professor Ladd and I also find that states regard assistance through grants and assistance through fiscal institutions as substitutes for each other. A state that provides extensive grants to its cities, for example, is not likely to give cities access to taxes with export potential or to take over city services.

Finally, we find no evidence to support the view that states provide less assistance, either through grants or institutions, to cities that receive relatively high federal grants. This result reinforces the conclusion that states are unlikely to respond to federal-aid cuts by increasing their own aid to cities.

The Outlook for Central Cities

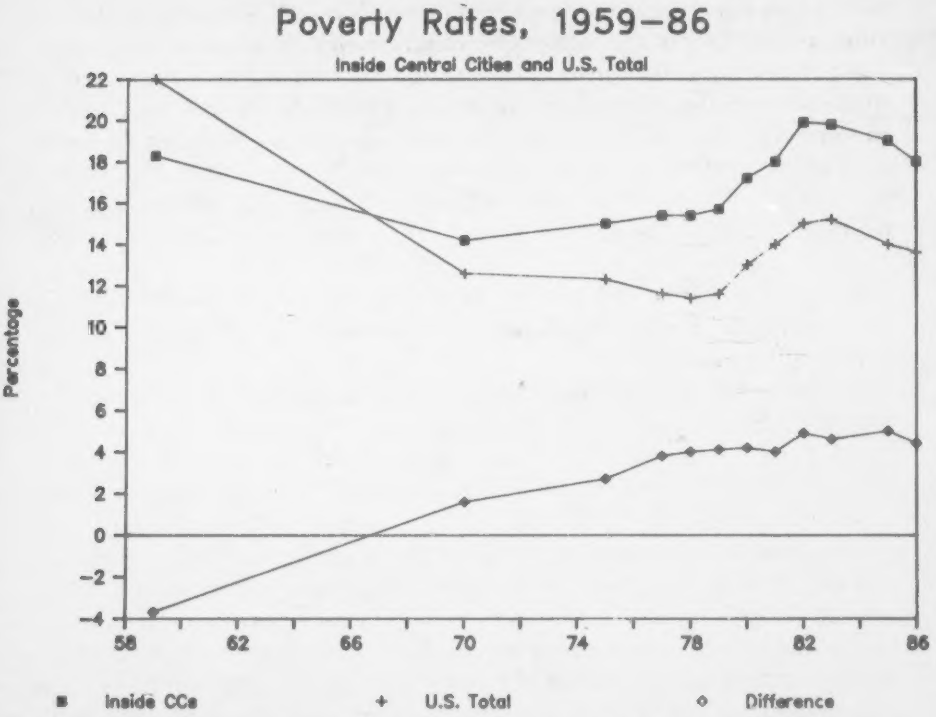
The long-term economic and social trends that have caused fiscal trouble in many major central cities have not gone away.

Residents' real per-capita income in the average major central city grew more rapidly between 1982 and 1986, 1.2 percent per year, than it did between 1972 and 1982, 0.5 percent per year. However, the growth over the 1972 to 1982 period was still modest, and was slower in these cities than in the nation as a whole. Moreover, 10 cities experienced declines in real per-capita income between 1982 and 1986, and 37 cities experienced slower growth during this period than did their metropolitan areas. Although income data for central cities are not yet available past 1986, real per-capita income in the nation grew more slowly between 1986 and 1988 than between 1982 and 1986.

Because of suburbanization and interregional migration, many central cities have been losing population for years. Between 1982 and 1986, 31 major central cities lost population and 62 cities grew more slowly than did their metropolitan areas. These declines in city population are often associated with middle-class flight and, hence, with increased concentrations of poverty and disadvantage.

Another key trend is the concentration of poverty in central cities. This trend is important because extensive poverty boosts the cost of providing key public services, such as police, fire, and education. As shown in Figure 6, the poverty rate in central cities (all central cities, not just the 71 major central cities) declined rapidly during the 1960s but then grew steadily in 1970s until it reached a peak of almost 20 percent in the depth of the recession in 1982. This poverty rate has fallen somewhat since 1982, and it is now back to the 1959 (and 1981) level, namely 18 percent. It remains to be seen whether it will now return to the upward path established in the 1970s or continue the decline since 1982.

FIGURE 6



Source: U.S. Bureau of the Census, *Characteristics of the Population Below the Poverty Line* (1979, 1980 and 1983 Editions) and *Poverty in the United States* (1985 and 1986 Editions).

Figure 6 also reveals that at any given national poverty rate, the concentration of poverty in central cities has increased over time. In 1959, the poverty rate in central cities was actually lower than the rate in the nation as a whole. Not only did the central-city rate move above the national rate in the 1960s, but the gap between the central-city and national rates has increased fairly steadily since then to its current level of about 5 percentage points. To the extent that poverty does grow in the future, the growth is likely to be heavily concentrated in central cities.

The declines in poverty since 1982 suggest that the environment for providing public services in central cities may have improved in recent years. This conclusion may be premature. Many cities today, unlike any cities in 1982, face major challenges from homelessness, crack cocaine, and AIDS. These three phenomena clearly cause a significant increase in the cost of city services. Moreover, these average figures hide serious deterioration in some central cities. Recent tabulations in Cleveland, for example, found a shocking increase in the poverty rate, from 27.1 percent in 1980 to 39.7 percent in 1989 (see ""Poverty Indicators: Trends 1970-1989, Cuyahoga Country, Ohio," by the author. *Economic Opportunities in Greater Cleveland*, 1989).

I conclude that many major central cities, particularly the largest ones and those with the poorest residents, will continue to experience low and declining fiscal health.

The federal government is not likely to come to the rescue. Given the large federal budget deficits and the apparent unwillingness of politicians from either party to eliminate the deficit through tax increases, it is hard to imagine that these cities will receive any new help from the federal government in the foreseeable future. States have been left holding the bag.

What are the states likely to do? I see two possible paths.

Along the first path, states will continue to direct assistance to cities that need the help the most, thereby moderating the declines in fiscal health that the least fortunate cities will experience. Indeed, the degree to which states now direct assistance to troubled cities is striking, and the political factors that have supported this equalizing behavior may continue to operate in the future. Recent increases in state grants to a few troubled cities, including Detroit, and the recent state takeovers of courts and other services in many states are indications that states continue to be willing to find new ways to assist their cities.

Even along this path, however, the degree to which states help their troubled cities is subject to important limits. Some states, including California, have not been generous to their central cities in the past and have not directed the aid they do give to the cities that need help the most. Other states are in poor fiscal health themselves, often because of low resident income, and may not be able to help their cities without making an unacceptable sacrifice. At best, many states will moderate, not eliminate, the declines in fiscal health in their most troubled cities.

Along the second path, states will gradually cut back on the extent to which they help their most troubled cities. The continuing ripples of the tax revolt keep the pressure on many states to cut spending or at least not to expand it. The almost universal drop in major central cities' share of state population implies that these cities are losing representation in state legislatures. Aid programs for cities may now be voted down by new suburban and rural majorities. Glimpses of this path have already appeared. In Pennsylvania, for example, the state legislature recently put a cap on the earnings tax that commuters into Philadelphia must pay. And two very troubled cities, Baltimore and Newark, have experienced cuts in state grants in recent years.

The future along this path looks quite grim. Without expanded state assistance, income and population declines, growing poverty concentrations, or the toll from homelessness, crack, and AIDS could spell disaster for many major central cities, particularly the largest cities and those with the poorest residents. Indeed, many cities may be caught in a vicious circle in which declines in fiscal health, due to income declines or deteriorating environmental conditions, force cities to raise taxes or cut public services, which in turn drives businesses and middle-income households out of the city. These losses lower the fiscal health of the city still further (see Bradbury, Downs and Small. *Urban Decline and the Future of American Cities*. Washington, D.C.: The Brookings Institution, 1982.)

I do not know, of course, which path state assistance will follow. However, I hope that central cities do not become lost in the federalism shuffle initiated by the tax revolt and the Reagan aid cuts. Perhaps future graduates of The Maxwell School, along with other policy makers and policy analysts, can keep states from walking down the less generous second path by emphasizing the structural causes of cities' fiscal distress, by stating a strong concern for the poor and disadvantaged citizens who are concentrated in cities, and by offering appropriate policies for the states to pursue. These policies include equalizing grant programs; providing cities the authority to levy more broad-based taxes, such as earnings taxes; state takeover of city services with benefits that fall outside city boundaries, including courts and social services; regional tax-base sharing, as implemented in Minneapolis; and state-financed urban-economic-development programs. These types of policies may be the last hope for our most distressed cities.

Data Note

The data presented in this paper without a citation come from the Advisory Commission of Intergovernmental Relations, *Significant Features of Fiscal Federalism* (Washington, D.C.: By the author, various years); in the case of recent aid changes for major central cities, from the U.S. Bureau of the Census, *City Government Finances* (Washington, D.C.: By the author, various years); and in the case of recent population and income changes for major central cities, from Ladd and Yinger *Recent Trends in City Fiscal Health*.

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